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Print Edition May 24th 2008

Inflation's back...but not where you think
Double-digit price rises are about to afflict two-thirds of the world's population: leader

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Politics this week

May 22nd 2008
From The Economist print edition

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China observed three days of national mourning for those killed by the recent earthquake in the province of Sichuan. The number of dead or missing climbed above 70,000, and 5m people were reported to be homeless. See article

Three days of national mourning were also declared in **Myanmar**, where the estimate of casualties from the cyclone on May 2nd was raised to 78,000 dead and 56,000 missing. An agreement reached by South-East Asian foreign ministers should help the inflow of aid. But the risk of a secondary catastrophe, of disease and starvation, remained high. See article

The foreign ministers of **India** and **Pakistan** held talks in Islamabad, their first official meeting since the formation of a new civilian government in Pakistan. Little progress was made in resolving their disputes, including disagreement over the divided territory of Kashmir. See article

Motiur Rahman Nizami, leader of **Bangladesh's** largest Islamist party, Jamaat-e-Islami, was arrested and jailed on corruption charges. The party accused the army-backed interim administration of political harassment. It has promised to hold elections in December. But the leaders of the three biggest political parties are now all in detention.

Dominican order

Leonel Fernández won the presidential election in the **Dominican Republic**, with 53.8% of the vote. It will be a third term for Mr Fernández, a reforming centre-leftist, who was president from 1996-2000 and was elected again in 2004.

The Bush administration said it would soon allow Americans to send mobile phones to family members in **Cuba**, and that if Raúl Castro, the Cuban president, was “serious about his so-called reforms”, he would let the phones in.

Suez, a Franco-Belgian utility, won a licence to build and operate two controversial hydro-electric dams on the River Madeira, in **Brazil's** Amazon region. The dams were opposed by Marina Silva, who resigned as environment minister earlier this month.

Venezuela's government protested when an American military aircraft strayed into its airspace—accidentally, said the United States. Venezuela also claimed that Colombian troops had crossed its border, which Colombia denied. These protests came after Interpol declared that computer files that appear to link Venezuela's government to **Colombia's FARC guerrillas** were authentic. See article

Voting in the Caucasus

The party of President Mikheil Saakashvili comfortably won **Georgia's** general election. Posturing by both the Russians and the Georgians over the breakaway enclave of Abkhazia persisted. See article

A senior **ETA** leader, Javier López Peña, was arrested in France, along with three colleagues. Mr Peña is said to have pushed for an end to the Basque terrorist group's ceasefire last year, and is also thought to have been involved in an ETA car bombing at Madrid airport in 2006.

Silvio Berlusconi took his new cabinet to Naples for its first meeting. **Italy's** prime minister wanted to show his determination to tackle the region's rubbish mountain. He also announced tough new anti-immigration measures, aimed particularly at Roma (gypsies) from Romania. See article

The European Commission proposed new measures to reform the **European Union's** common agricultural policy. The British and Scandinavians said they were too timid; the French and Germans said they were too radical. See article

Doha negotiations

A complex peace deal to end unrest and political paralysis in **Lebanon** was struck under the aegis of the emir of Qatar. The balance of power looks likely to shift slightly against the pro-Western alliance in favour of the Shia party-cum-militia, Hizbullah. See article

Israel pursued peace on two fronts. It announced talks with **Syria** through Turkish intermediaries. And it came closer, through the mediation of Egypt, to a ceasefire with the Islamists of **Hamas**, who control the Gaza Strip. See article

Islamists and tribal alliances continued to dominate **Kuwait's** 50-seat parliament after a general election that reformers had hoped would end months of delays in passing legislation. Not a single female candidate was elected. In any event, the al-Sabah family will still run the show. See article

At least 42 black immigrants in **South Africa**, mainly from Zimbabwe, Mozambique and Malawi, were killed and some 20,000 may have been displaced as a result of xenophobic attacks by indigenous gangs, who accused them of stealing their jobs and of criminality. See article

Reuters

The **Zimbabwe** Electoral Commission said that a presidential run-off between the incumbent, President Robert Mugabe, and his challenger, Morgan Tsvangirai, would be held on June 27th. The intimidation of opposition campaigners proceeded apace.

Finishing where he started

As expected, Barack Obama handily won the Democratic primary in **Oregon** and Hillary Clinton thumped him by a huge margin in **Kentucky's** contest, where a third of her supporters said they would not vote for Mr Obama in November. He went to Iowa and held a victory rally (though it wasn't called that) to mark the fact that he had amassed a majority of pledged delegates overall—excluding the thorny votes in Florida and Michigan. See article

Mr Obama and John McCain continued to spar over **foreign policy**. After taking umbrage at remarks George Bush made in Israel about appeasement, Mr Obama went on to argue that the threat from Iran was not of the same magnitude as that posed by the Soviet Union. Mr McCain said that was a "reckless judgment". See article

Getty Images

Another senior aide left Mr McCain's team because of **lobbying**. To tackle criticisms that it is too close to lobbyists, his campaign is asking staff to either sever their ties or leave.

Pundits pondered whether the legalisation of **gay marriage** in California would have an impact on the general election. In a ruling on May 15th, the state's Supreme Court struck down a ban on same-sex nuptials as discriminatory. See article

Senator **Edward Kennedy** was diagnosed with a malignant brain tumour after suffering a seizure. Politicians from across the political spectrum wished him a speedy recovery.

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Business this week

May 22nd 2008
From The Economist print edition

American Airlines announced further job cuts and a reduction of around 12% in its domestic flight operations, and became the first carrier in the United States to introduce a charge for the first bag that a passenger checks in (of $15). The firm's share price tumbled by 24%. AA is reeling from the rising cost of fuel; this week the **price of oil** rocketed past $135 a barrel.

Eni signed an agreement with Congo that boosts its operations and explorations in the country, especially in **oil-sand deposits**. The Italian oil company is investing $3 billion over four years. Though smaller than similar finds in Canada and Venezuela, Congo's oil-sands represent the largest source of non-conventional oil in Africa.

Risk assessment

BP's Moscow offices were raided for a second time in as many months. Russian security services are investigating alleged industrial espionage, though observers note that the probe puts more pressure on Russian investors in TNK-BP, BP's Russian joint venture. The Kremlin is eager to extend its control over Russia's energy industry.

Calpine received an unsolicited takeover approach from **NRG Energy.** Both companies operate in Texas; their combination would create America's biggest independent generator of power.

Investors speculated that **Microsoft** may seek to buy the search-engine operations of **Yahoo!** or try to forge partnerships in other areas. The software giant walked away from its takeover offer for Yahoo! earlier this month, after negotiations broke down over the price. Microsoft's chief executive, Steve Ballmer, speaking at the opening of the company's new research centre in Israel, said he wants to talk to Yahoo! about deals that “create value”.

Meanwhile, Microsoft rolled out an internet-search facility that gives consumers **cash back** on items they have bought from certain retailers. The idea is to claw back some of the lucrative advertising revenue ceded to Google.

A bidding war broke out between Russia and India for **Esmark**, an American steelmaker. Russia's **Severstal** made an offer that it said was worth $1.2 billion, closely matching an offer that Esmark has already agreed to from **Essar Steel**, which is based in Mumbai. Severstal maintains it has the support of Esmark's main union.

UBS offered new shares at a heavily discounted price of SFr21 ($20), a third less than their latest market value (and 70% below what they were worth a year ago). The Swiss bank hopes to raise around SFr16 billion, after raising SFr13 billion in March.

AIG disclosed that it was on course to raise $20 billion in new capital to help protect it against market volatility. The sum was greater than had been expected, causing investors to fret that the insurer would make further write-downs.

Moody's said it would review its procedures after revelations that a hitch in its calculations caused it to give ratings that were too high to some financial instruments. The company's share price fell.

Millionaires factory

Macquarie Group, an Australian investment company specialising in infrastructure deals, reported a 23% rise in annual post-tax profit. It forecast a tough year ahead, but not for its chief executive, who is retiring with an A$80m ($77m) pay package.

A consortium led by Abertis and including Citigroup won the bidding to take over the 75-year lease on **Pennsylvania's turnpike**, the state's main toll road. At $12.8 billion, the deal is one of the biggest privatisation initiatives in America's infrastructure sector. Abertis operates toll roads in Spain and France and has other assets in transport.

Bertelsmann named Markus Dohle as chief executive of **Random House**. Mr Dohle, an outsider to the publishing industry, runs the German conglomerate's printing unit and is expected to shake up Random, which has seen sluggish sales of late. Peter Olson, Random's boss, is moving into academia. The book world has been rife with rumours that he fell out with his bosses in Germany.

The **euro** strengthened against the **dollar** and other leading currencies partly because of an unexpected rise in an index of German business confidence compiled by Ifo, a think-tank based in Munich.

Mr Buffett's shopping trip

Warren Buffett visited Frankfurt, Lausanne, Madrid and Milan to assess the investment possibilities of Europe's big family-owned businesses. He said he was not perturbed by the strong euro. Mr Buffett's Berkshire Hathaway has so far made very limited investments outside the United States.

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KAL's cartoon

May 22nd 2008
From The Economist print edition

Illustration by Kevin Kallaugher

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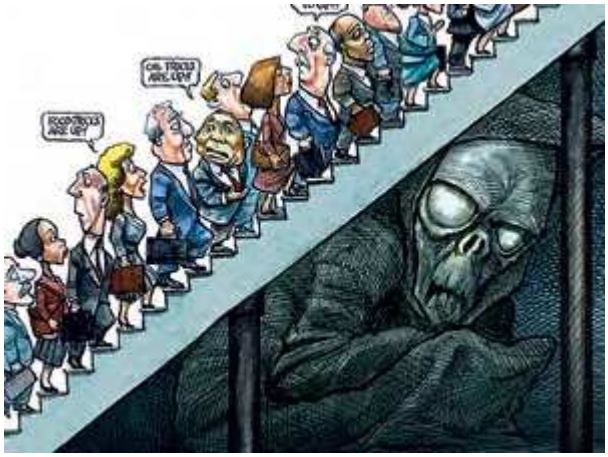
The world economy

Inflation's back

May 22nd 2008
From The Economist print edition

Double-digit price rises are about to afflict two-thirds of the world's population

Illustration by Kevin Kallaugher



RONALD REAGAN once described inflation as being “as violent as a mugger, as frightening as an armed robber and as deadly as a hit-man”. Until recently, central bankers thought that this thug had been locked up for life. Thanks to sound monetary policies, inflation worldwide had stayed low in recent years. But the mugger is back on the prowl.

Even though America is close to recession and growth in other developed economies has slowed, inflation is rising. Jean-Claude Trichet, president of the European Central Bank, this week gave warning about the mistakes of the 1970s, when inflation was let loose at huge cost to growth. His words were aimed at rich-country central banks, but policymakers in emerging economies are the ones who should most take heed. In countries such as China, India, Indonesia and Saudi Arabia even the often dodgy official statistics show prices have risen by 8-10% over the past year; in Russia the rate is over 14%; in Argentina the true figure is 23% and in Venezuela it is 29%. If you measure the numbers correctly, two-thirds of the world's population will probably suffer double-digit rates of inflation this summer (see article).

A 1970s reunion you really don't want to attend

Taken as a whole (and using official figures), the average world inflation rate has risen to 5.5%, its highest since 1999. The main cause has been the surge in the prices of food and oil, which briefly soared above $135 a barrel this week. But Mr Trichet's concern is that higher headline rates could push up inflation expectations, leading to bigger pay demands, and so trigger a wage-price spiral, as in the 1970s. Central bankers' mistake then was to hold monetary policy too loose, so that higher oil prices quickly fed into other prices. So it is worrying that global monetary policy is now at its loosest since the 1970s: the average world real interest rate is negative.

By slashing interest rates as inflation has climbed, has the Fed sowed the seeds of a new inflationary era? That case looks hard to prove in the rich world. Inflation rates of 3.9% in America and 3.3% in the euro area are far higher than central banks want, and inflation expectations are rising. If growth in the euro area remains robust, the ECB should certainly worry more about inflation. Yet so far there is little sign that higher food and oil prices are pushing up other prices in the rich economies. Wages have remained relatively subdued and core rates of inflation (excluding food and energy) are little higher than a year ago. Moreover, growth is expected to be below trend in America and Europe over the next year or so and unemployment is likely to climb, which will help to curb wage rises. America's consumer-

confidence index has fallen to a 28-year low, which suggests that consumer spending will fall. This, in turn, will spur firms to cut costs and limit pay rises.

The picture is very different in emerging countries. Prices are rising much faster partly because food accounts for a bigger chunk of their consumer-price indices. But wages (rising at nearly 30% a year in Russia) and core-inflation rates are also accelerating. Many of these economies are operating close to full capacity, where inflation is more likely to take hold.

There are alarming similarities between emerging economies today and the rich world in the 1970s when the Great Inflation lifted off. Many policymakers in emerging markets view the rise in inflation as a short-term supply shock and so see little need to raise interest rates. Instead they are using price controls and subsidies to cap prices. Money supplies are growing almost three times as fast as in the developed world. Many central banks are still not fully independent. And inflationary expectations are not properly anchored, increasing the risk of a wage-price spiral. Emerging markets may as well be inviting the muggers into their own homes.

Watch your back

Rising inflation, like so much of the world economy in recent years, can be explained partly by the increasingly complex links between developed and emerging economies. Emerging economies shared some responsibility for America's housing and credit bubble. As Asian economies and Middle East oil exporters ran large current-account surpluses, they piled up foreign reserves (mostly in American Treasury securities) in order to prevent their currencies from rising. This pushed down bond yields. At the same time, cheap imports from China and elsewhere helped central banks in rich economies hold down inflation while keeping short-term interest rates lower than in the past. Cheap money fuelled America's bubble.

Now that this bubble has burst, the cross-border monetary stimulus has changed direction. As the Fed has cut interest rates, emerging economies that link their currencies to the dollar have been forced to run a looser monetary policy, even though their economies are overheating. Emerging economies with currencies most closely aligned to the dollar, notably in Asia and the Gulf, have seen the biggest price rises. Countries, such as Mexico, that have more flexible exchange rates and are more committed to inflation targets have done better.

Even if the Fed's interest rate suits the American economy, global interest rates are too low. In turn, the unwarranted stimulus to demand in emerging economies is further pushing up commodity prices; so too is speculative buying by investors seeking higher returns than from bond yields, which are still being depressed by the emerging economies' build-up of reserves. This stokes inflationary pressures in America and Europe and makes life difficult for rich-country central banks.

Loose money in America and rigid exchange rates in emerging economies are a perilous mix. The longer emerging economies hold down their exchange rates, the greater the risk of rising global inflation. Admittedly, exchange-rate appreciation is not as simple a remedy for emerging economies as some claim: a rise in interest rates and the expectation of a further appreciation in the exchange rate could, perversely, exacerbate inflation by sucking in more capital; and setting the exchange rate free risks massive overvaluation. But with an economic serial killer on the loose, one way or another monetary policy will have to tighten and exchange rates rise.

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Afghanistan

How the “good war” could fail

May 22nd 2008
From The Economist print edition

America needs to lean much harder on Afghanistan's President Karzai

IN CONVENTIONAL wisdom it is the “good war” that was neglected to wage the bad one in Iraq. Afghanistan's Taliban regime had provided al-Qaeda with a haven and refused after the attacks of September 11th to give its leaders up. When America invaded there was no twisting of intelligence, as in Iraq, and no great rift at the United Nations. Barack Obama and Hillary Clinton both say that one reason to pull American forces smartly out of Iraq is to reinforce a war that is not only more justified but also—given enough troops—more winnable.

The conventional view contains some truth. But whatever the respective merits of Iraq and Afghanistan, it needs adjusting in one vital respect. The NATO forces in Afghanistan are too small, but that is not the chief threat to the West's purposes there. The weakness and corruption of Afghanistan's elected government matter more. This weakness, moreover, is not the inevitable product of Afghanistan's poverty and backwardness, even though these things play a part. It is the result of a failure of political will in Kabul and in Washington. Afghanistan's President Hamid Karzai is not doing as much as he should to build an effective administration. And George Bush is not doing as much as he could to twist Mr Karzai's arm.

Stalemate and worse

As our briefing this week reports (see article), the military campaign against the Taliban is going reasonably well in parts of the country. Despite having the use of an invaluable cross-border sanctuary in the Pushtun tribal areas of Pakistan, Taliban fighters have little chance of grabbing any major town or city. An American-led campaign of assassinations has picked off many of their experienced commanders. The Taliban prefers now to avoid frontal clashes and concentrates on laying roadside bombs. For the time being, the danger is less that the government will lose more land to the insurgents, more that the war will settle into a stalemate, one in which the Taliban controls much of the countryside in the Pushtun belt and Mr Karzai's government runs the rest.

A military stalemate plus de facto partition is not quite defeat for the West in Afghanistan. But it is not victory either. This, remember, is a place America invaded so as to deprive al-Qaeda of a safe haven. Yet al-Qaeda has now re-established just such a haven straddling the Pakistan border. In the longer run, moreover, a stalemate will be hard to sustain. The slow but relentless toll of NATO casualties continues to sour opinion in troop-contributing countries. Support for the good war will shrivel unless sceptical voters in the West see that they are gaining something useful for their lives and money.

How to prevent this downward spiral? With so much of its army in Iraq, America cannot quickly boost its

forces in Afghanistan. The Afghan army is growing, but it will need to be substantially bigger than the planned 80,000. Soldiers, though, are not the most pressing need. Politics, not extra firepower, will in the end determine whether the elected government can expand its reach and squeeze out the Taliban. In particular, Mr Karzai must demonstrate that his government is clean and competent enough to deliver basic services in the areas it controls. Beyond this he must press some process of conciliation that gives the majority Pushtuns a bigger stake in the new order and so detaches more of them from the insurgency.

Mr Karzai is failing on both counts. Worse, he seems hardly to be trying. The hopes that greeted his election in 2004 are dying. He may be untainted personally, but he has not purged the traffickers and warlords close to him, let alone started to unhook Afghanistan from its institution-suborning dependency on poppy and opium. Corruption and incompetence are rampant, especially in the provinces. America and its allies are learning to deliver help directly through provincial reconstruction teams, but these efforts by foreign armies are no substitute for, and often retard, the growth of a national administration. As a result, the legitimacy of the government is leaking away under the pressure of thwarted expectations.

Is it plausible to pin the blame for Afghanistan's disappointments on the under-performance of one man? Obviously not: 30 years of war in a benighted land have left a dearth of able administrators and scars too deep for a single leader to heal. As a Pushtun in a government with roots in the former Tajik-dominated Northern Alliance, Mr Karzai is boxed in from many sides. By the same logic, however, America had better stop vesting so many of its own hopes in the person of Mr Karzai. A decent man with some liberal instincts and a lot of personal courage was just what the doctor ordered in 2001. Later, in Iraq, the Americans longed for a Karzai equivalent. But it should be plain by now that there are no shortcuts in the nation-building business. If the West aims to succeed in Afghanistan it has to do more to build its institutions and invest less faith in the instincts of a picked man.

Ask for more, Mr Bush

This need not mean shoving aside the elected president of a sovereign country. If the Afghans want to replace Mr Karzai, they can do so in next year's election. In the meantime the world is entitled to demand more for the fortune it lavishes on his government. Instead of just forking out at the forthcoming donors' conference in Paris, it should insist on joint auditing of government departments. America should push Mr Karzai to tackle the poppy issue, sack or prosecute the traffickers in his government and intensify the work of political reconciliation.

Afghan politics are opaque, and brutal. Mr Karzai may be too weak to take the action needed to restore the standing of his government. But the same was said of Iraq's prime minister, Nuri al-Maliki, until a recent bout of decisiveness brought excellent results. As for Mr Karzai, he will not know till he tries. And one reason for his failure to try is that Mr Bush has, by all accounts, not been willing to make him. With an eye on his own forlorn legacy, Mr Bush may prefer to count down his last months in office without risking any action that could disturb the impression of Afghanistan being the good war. But good is relative, and the alternative to some tough love now could well be stalemate, drift—and eventual failure.

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Diplomacy

Speaking to the enemy

May 22nd 2008
From The Economist print edition

Sometimes it makes sense; sometimes it doesn't; sometimes not talking can be appeasement

AP

EVERY noun enjoys its 15 minutes of fame. Some get more fame than they deserve. In America's foreign-policy debate one that has been bandied about too much lately is “appeasement”. When he spoke to Israel's parliament on May 15th, George Bush blasted those who sought “the false comfort of appeasement” by negotiating with terrorists and radicals in the Middle East. Barack Obama assumed the barb was aimed at him. He in turn accused Mr Bush and John McCain, the Republican candidate, of “hypocrisy and fear mongering”.

Mr Obama had it right. Speaking to the enemy is an ordinary part of diplomacy and does not on its own amount to appeasement. In Munich in 1938, Neville Chamberlain's sin was not that he talked to Adolf Hitler, but that instead of standing up to him he sold Czechoslovakia down the river. Had the British prime minister then been Winston Churchill, the outcome of the meeting, and the history of the world, might have been different. In January 1991 in Geneva, for example, America's secretary of state talked face-to-face to Tariq Aziz, a nasty piece of work who was Saddam Hussein's foreign minister and is currently on trial for murder. But nobody has ever been silly enough to accuse James Baker or the president who sent him (one George H. W. Bush) of appeasement. And that is because instead of letting Iraq keep Kuwait, which it had just invaded and annexed, Mr Baker told Mr Aziz that America would throw Iraq out by force if it did not leave. Hardly appeasement.

Are there any people, organisations or regimes so evil that the mere act of talking should be beyond the pale, no matter what is said? You might expect North Korea to fall into such a category, given the slaughter and starvation for which its present dictator and his late father are responsible. Strange, then, that the very Mr Bush who admonished the appeasers from Israel's parliament has allowed Americans to negotiate with the North for years. If these talks ever make Kim Jong-Il give up his nukes, nobody in his right mind will hold Mr Bush's decision to talk against him. And if it's fine to speak to North Korea, why rule out talking, as Mr Obama says he would, to Iran? As it happens, American diplomats already talk to their Iranian counterparts, though only about Iraq.

There is, however, a wrinkle. Speaking to the enemy should never be ruled out. But withholding talks can sometimes make your adversary give something up beforehand. For decades Israel and America said they would not talk to the Palestine Liberation Organisation until Yasser Arafat renounced terrorism. Eventually, he did. The same tactic might make Hamas, Hizbullah or Iran drop their stated plan to eliminate the Jewish state. A tactic, however, is not a principle. Choosing the right one requires guessing how much value the other side places on talking, and what it might pay for the privilege. Israel, incidentally, is currently in talks not only with Syria but also, indirectly, with Hamas (see article).

Talk of appeasement

Mr Obama, it is true, has got into trouble by implying that he himself would sit down to unconditional talks with Iran's Holocaust-denying president, Mahmoud Ahmadinejad. That would be poor diplomacy: the prize of such an encounter could be withheld until minions persuaded Iran to stop enriching uranium in accordance with the UN's orders.

Statesmen who want to clamber onto their high horses should note that, in some cases, not talking can be a form of appeasement. This week Gordon Brown refused to invite the Dalai Lama, Tibet's spiritual leader, to Downing Street but met him at the home of the leader of the Anglican church. That was a fudge to appease China, and is a genuine disgrace.

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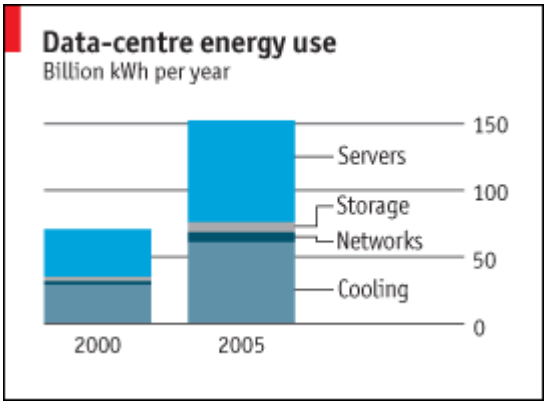
May 22nd 2008
From The Economist print edition

The internet could become as ungreen as aviation. A self-serving solution beckons



IN COMPUTING, buzzwords are in most cases just that. But the latest, “cloud computing”, stands for a real trend: computing is increasingly being supplied as a service over the internet (depicted as a “cloud” in many charts). Still, there is something wrong with the term.

It implies that by moving into the ether, computing is becoming weightless, with no connection to the resource-constrained real world. In fact the opposite is true. The corollary of more computing in the sky is more and bigger data centres on earth. These are warehouses packed with humming electronic gear, and in particular thousands of servers, the powerful computers that crunch and dish up data. The biggest facilities are the size of half a dozen football pitches and house as many as 80,000 servers (see article). They are huge energy hogs: in America alone, according to the country's Environmental Protection Agency (EPA), data centres already account for 1.5% of electricity consumption.

And this figure is growing. Data centres consumed 0.6% of the world's electricity in 2000, and 1% in 2005. Globally, they are already responsible for more carbon-dioxide emissions per year than Argentina or the Netherlands, according to a recent study by McKinsey, a consultancy, and the Uptime Institute, a think-tank. If today's trends hold, these emissions will have grown four-fold by 2020, reaching 670m tonnes. By some estimates, the carbon footprint of cloud computing will then be larger than that of aviation.

Yet the industry's attitude towards its growing environmental impact is rather unusual: computer-makers actually seem to enjoy drawing attention to it. Not for them the defensive approach favoured by the airlines, which is to emphasise the economic benefits of flying, note what a small share of overall emissions it releases and promise that some wondrous technology will lead to reductions in the distant future. Instead, computer-makers prefer to emphasise the scale of the problem—since that leads naturally to a sales pitch for the various technologies they have devised to mitigate it.

The firms that run data centres are less forthcoming. A research programme set up by the EPA to establish best practice for data centres has signed up only 54 volunteers, the EPA said this week, which suggests that many companies would rather not reveal how inefficient they are. On average, McKinsey and the Uptime Institute found, a third of servers run idle. In most data centres, administrators do not even know which programs run on which servers. “Let's pull the plug and see who calls” is not just a joke. This has prompted industry chatter that data centres risk having regulations imposed upon them if they do not pull their socks up. That would be just fine for vendors, since it would spur sales.

Technologies including multi-core processor chips, more efficient power supplies and smart cooling systems are already available. So too is software that allocates computing resources more efficiently. Where they once boasted about performance, computer-makers now talk about performance-per-watt, and emphasise their energy-saving credentials. “Slash energy consumption up to 45%,” screams an advertisement for Dell, in green type. “Virtualise servers to help maximise performance and reduce energy usage. Implement best practices to enhance efficiency and lower cooling costs.” (It makes a change from talk of gigahertz and terabytes.) Deploying the latest kit could cut the power consumption of data centres in half, according to the EPA.

Doing well by doing good

It is easy to be cynical about all this. However energy-efficient computers become, the bigger task will be to generate electricity using technologies that do not emit carbon dioxide. Yet this is one case when market forces and environmentalism align. A cap-and-trade system or a carbon tax, of course, would make such alignments more commonplace. But even without putting a price on carbon, there are already plenty of examples, as in computing, where adopting more efficient technology would both save money and help the environment.

Greenery does not have to be motivated by altruism; and it is far more likely to be effective when it is not. If it helps to reduce carbon-emissions, self-serving greenery is as good as any other kind. The planet cannot tell the difference.

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ASEAN, Indonesia and Myanmar

Forcing help on Myanmar

May 22nd 2008
From The Economist print edition

ASEAN needs to play a bigger role in its region, and Indonesia a bigger role in ASEAN

AFP

Get article background

THREE long weeks after a cataclysmic cyclone struck Myanmar, something approaching an international relief effort is at last under way. The grotesque reluctance of the ruling junta to allow foreigners to help the desperate Burmese has shredded whatever vestige of respect it enjoyed internationally. It had long lost it at home. The decisive push into a more co-operative stance seems to have come in private from China and in public from the Association of South-East Asian Nations (ASEAN), the regional club that admitted Myanmar in 1997 and has been silently ruing the decision ever since.

For some in the region, this is a vindication of “the ASEAN way”, which favours brotherly advice over brow-beating, non-interference over intervention, and consensual deliberation over confrontational haste. They are wrong.

The agreement ASEAN forced on the junta this week is of course welcome. But in fact the unfolding catastrophe demonstrates that ASEAN's hands-off style is wholly inadequate. The “concessions” it has wrung from Myanmar's generals are too little, too late. ASEAN, and above all its biggest member, Indonesia, need to throw their weight around a bit more. Who knows how many lives have been lost as the generals blocked foreign aid and went ahead, in most of the country, with a farcical referendum on a new constitution designed to perpetuate their rule? Even now, far from enough help is getting through (see article). Many in the Irrawaddy delta area were malnourished anyway. The danger is high of a secondary disaster, of starvation and disease. The agreement with ASEAN will help lower this risk. But it still leaves unnecessary constraints on how much help the needy will get, how soon.

Indonesian lessons

The junta, perhaps genuinely ignorant in its remote capital city of how bad things are, believes the “emergency” is over, and the emphasis now should be on “recovery” and reconstruction. This helps explain why it has changed its tune somewhat on foreign aid—it believes that foreigners may find their worst fears misplaced; and it knows it needs billions of dollars for the recovery effort.

Also, however, the generals may fear the consequences of continuing to refuse aid. The very paranoia that made them deter foreign aid workers may feed delusions of foreign invasion. If ASEAN managed to convey to them that allowing aid in was a smaller threat to their rule than keeping it out, it is to be congratulated. The impetus seems to have come in part from ASEAN's own secretariat in Jakarta. This

has traditionally been a feeble body of pen-pushers under a mild-mannered secretary-general, usually a senior regional official rewarded with the post as the crowning boondoggle in a career of not rocking the boat. But the present incumbent, Surin Pitsuwan, is rather different—a career politician, who, as Thailand's foreign minister, tried to steer ASEAN into a more activist role in troublesome member states, such as Myanmar and Cambodia. He is said to see the Burmese cyclone as the defining crisis of his tenure. If so, he is right, and deserves support.

The member states said to have been most supportive of an active ASEAN role are Singapore—always more attuned than the others to the group's international image—and also Indonesia. If this is a sign that Indonesia may be contemplating a regional role commensurate with its stature, it is to be welcomed. It has always, quietly, dominated ASEAN. Indeed, the block was formed in 1967 partly to tie Indonesia down in a Lilliputian web of regional commitments. Accounting for two-fifths of ASEAN's population and one-third of its GDP, it dwarfs the other nine members.

Under the 32-year dictatorship of Suharto, which ended ten years ago this week, Indonesia, in keeping with the traditions of Javanese statecraft, used its clout discreetly. Since the tyrant fell, it has hardly used it at all. This is a shame. Although others, notably Lee Kuan Yew of Singapore and Mahathir Mohamad of Malaysia, were more vocal exponents of “Asian values” of Confucian respect for the powers-that-be, Suharto was the poster child of the virtues of authoritarianism. Yet since his downfall, democracy has put down surprisingly deep roots (see article). Indonesia has become a different sort of model—of the transition from military to civilian rule, of openness and pluralism. It should use the influence it has in ASEAN both to promote these virtues, and to turn it into a club that enforces some minimum standards of decency on its members. However low those standards are set, Myanmar's junta, with its refusal to help save the lives of its own people, falls short.

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Medicine

Smart drugs

May 22nd 2008
From The Economist print edition

Drugs to make you cleverer are in the test-tube. Good

Illustration by Claudio Munoz

THIS drug is peddled on every street corner in America, and is found in every country in the world. It is psychoactive, a stimulant and addictive. Users say that it increases alertness and focus, and reduces fatigue. But the high does not last and addicts must keep consuming it in increasing quantities.

Put this way, sipping coffee sounds more like an abomination than the world's most accepted form of drug abuse. But centuries of familiarity have put people at their ease. In the coming years science is likely to create many novel drugs that boost memory, concentration and planning. These may well be less harmful than coffee—and will almost certainly be more useful. But will people treat them with as much tolerance?

High time

The new cognition-enhancing drugs are designed to treat debilitating diseases such as Alzheimer's, attention-deficit disorder and schizophrenia. But because they act deep in neural pathways of the brain, some of them are bound also to enhance people's power to think and learn (see article). Such drugs will inevitably be used by healthy people too. That is the lesson from medicines such as Ritalin (methylphenidate) and Provigil (modafinil), which are now widely used “off label” to boost performance, as *Nature* has found. When the British journal asked its scientifically aware readers earlier this year, one in five of those who answered said they had used such drugs non-medically, to help them concentrate or learn.

For many, drug is a four-letter word. Unapproved use is at best worrying and unfair, and at worst dangerous and immoral. Such thinking leads to strict controls or even prohibition and criminalisation. In Britain, for instance, Ritalin is a class B drug. Yet strict controls would be both futile and wrong.

Futile, because if people really want medicines, they can easily get hold of them. *Nature*'s drug users procured their stashes from prescriptions from doctors or over the internet. As anyone with an e-mail address knows, the difficulty is not scarcity, but keeping the offers for Viagra, real or fake, at bay.

And wrong because such drugs promise to do a lot of good. Many people already use Provigil to cope with night-shift work, jet lag and lack of sleep, and suffer few side-effects. Others use beta-blockers to overcome the anxiety and stress of performance. Scientists use off-label drugs to increase their focus. If that helps them unravel the mysteries of the universe, so much the better. If chemical assistance can help increase the useful human lifespan, the benefits could be huge.

Some worry about the unfair advantage and peer pressure that comes from these drugs. However, millions suffer from untreated but mild memory loss. Is it fair to deny them help? If the shy or the scatterbrained take cognitive enhancers, it is not obvious whether this is levelling their playing field or giving them an unfair advantage. Is it “natural” to prop up the ageing body with a nip and a tuck, but to restrict help for the ageing mind to brain-training on the Nintendo?

Punishing the off-label use of cognitive enhancers may also be unfair to those who find these drugs medically useful in unexpected ways. Schizophrenics, it has recently been found, are likely to be heavy smokers because nicotine is good for their condition. Genetic variations between people are associated with different levels of working memory. People using Provigil or Ritalin may eventually be found to have a legitimate but previously unknown need for the drug.

There will always be risks, but no more than for other medicines. Remember that the new drugs will have passed clinical trials because they are treatments for a disease, even if they have not been licensed as cognitive enhancers. There will be a lot of habitual off-label takers, more people than in the trials, so the regulators need to monitor them for side-effects—especially in children. But detailed and accessible information about the side-effects of drugs is to everyone's advantage.

With any compound, the task is to minimise harm while maximising the freedom to choose. It may even be that, like Viagra, society largely welcomes the arrival of a chemical that does, far better, what omega-3s, ginseng, vitamins and all the other quackery have failed to do. Unless of course, you want to outlaw double espressos too.

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On Frank Field, Barack Obama, Ecuador, St Sebastian, the Gulf economies, Israel, Margaret Thatcher, Russian bears

May 22nd 2008
From The Economist print edition

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Thoughts of an MP

SIR – To follow up on Bagehot's profile of me (May 17th), I would suggest that the drama surrounding the abolition of the 10% tax rate be viewed through the prism of representative and responsible government, as these are the twin principles on which Britain's democracy is based. The recent fiasco carries more than fiscal consequences.

Whereas my position is often opposed to the political establishment's line, it is very much in tune with the views held by traditional Labour voters. A system of representative government would surely legitimise rather than dismiss such a position. I believe we will pay a higher price than has been realised by trying to exclude a significant proportion of the electorate from the political process.

As for responsible government, how can a government be held responsible for its legislative programme if backbenchers regularly overwhelm it? Maintaining responsible government requires the success of the revolt over the 10% rate to be a rare occurrence.

Frank Field, MP
House of Commons
London

The candidate

SIR – I was struck by a statement contained in your article on Barack Obama ("The big remaining question", May 10th). Referring to his former pastor, Jeremiah Wright, you said: "It is doubtless unfair to judge Mr Obama by the company he keeps. Like any politician, he has to snuggle up to all sorts." I take you at your word.

Of course some people have suggested there is a big difference between the routine politicking of cosying up to someone for money or support and Mr Obama's association with his pastor. After all, he spent more than two decades at the church where Mr Wright made amazingly outrageous and patently false proclamations. Perhaps those people are being unfair, maybe even a tad naive. Thank God for your worldly sophistication.

James Allan
Professor of law
University of Queensland
Brisbane, Australia

SIR – Mr Obama claims to be committed to bipartisanship, but this is mere political expediency to divert attention from his liberal voting record in the Senate. He has not accomplished anything significant with the help of those he opposes. John McCain, on the other hand, has an extensive record of frustrating conservatives like myself by working with those across the aisle. So, what will it be: a pledge to be bipartisan going forward, or a verifiable history of such?

William Black
Cincinnati, Ohio

SIR – It is surely a worrying sign of the state of any decent democracy (and an embarrassment) when, in

deciding who is best fit to be president, people actually consider such things as whether Mr Obama “can't drink whisky, displays a suspicious familiarity with the price of an arugula salad and memorably bowled a deplorable 37” (“Almost there”, May 10th). This does not capture the true spirit of being American, but simply captures the spirit of middle-American idiocracy that politicians find so easy to manipulate.

Jeff Barger
New York

SIR – To somehow suggest that Mr McCain may have an edge based on race ignores the existing evidence. Mr Obama has already proved that he can win against a white man. There were several in the Democratic primaries, including John Edwards, a former vice-presidential candidate, Bill Richardson, governor of New Mexico, and Senator Joe Biden, men of vast experience. Perceived future performance, not race, is what really matters to voters.

Temitope Odukoya
London

SIR – This election will now be portrayed as a referendum on white America. Are we going to vote for a black man, or not? If we don't, the world will conclude that those racist Americans were too prejudiced to vote for a black man.

The fact that Mr Obama's record is thin, that he has consorted with anti-American communist radicals and black radicals, and supports giving drivers' licences to illegal immigrants, none of that will matter. No, if we don't elect Mr Obama it is because we are racists. Americans are no more racist than any other people. When are the British going to elect a black prime minister, I wonder?

Mike Burns
Bakersfield, California

SIR – Your briefing on black America cited the findings of an academic study as evidence that “blacks certainly face barriers in the job market” (“Nearer to overcoming”, May 10th). This study sent out fictitious job applications with “a black-sounding name, such as Jamal or Lakisha, or a white one, such as Emily or Greg”. The white-sounding applicants got a better response.

However, the names you think are “black-sounding” are also quite common in Asian and Arab countries. It was not clear to me from your article what constitutes a truly black-sounding name. If employers turned down applicants with names such as Jamal and Lakisha, is it not possible they may have been discriminating against Asian- and Arab-Americans?

Musaazi Namiti
Doha, Qatar

SIR – Blue-collar white applicants with names like Billy Bob and Brandi would probably have suffered the same fate as a Jamal or Lakisha when pitted against an Emily or Greg, something I thought would be obvious to those who designed the study.

I recently attended a ceremony at a university and was amazed at the recurrence of traditional first names; a plethora of Anns, Elizabeths, Johns and Stephens (many of them Asian-Americans) with nary a Staci, Crystal, Cody or Elvis in sight. Parents express their aspirations when they name their children, and usually get what they expect.

David Miller
Austin, Texas

SIR – You referred to America's electoral-college system as “an 18th-century oddity” (“Swinging in the wind”, April 26th). In fact, it is adapted from an ancient republican Roman idea (like much of the American system). In some instances Roman magistrates were elected through colleges among citizens divided into 35 tribes. Each tribe had one vote, giving the older, and much smaller, rural tribes disproportionate influence.

Tim Chandler
London

A new worldbeater

SIR – Your article on Ecuador's constitutional rewrite claims that Ecuador is a “worldbeater” in having averaged a new constitution every ten years (“Going nowhere”, May 10th). Since its first modern constitution in 1932, Thailand has had 17 permanent or temporary constitutions, an average of one for roughly every four-and-a-half years.

William Derbyshire
Bangkok

Cover issue

SIR – It is one of life's little pleasures to take *The Economist* out of its postal wrapping each week. Sadly, your depiction of Gordon Brown as St Sebastian (presumably, although a quick anecdotal survey told me many people assumed it was the crucifixion) with Tony Blair seemingly gloating in the corner was in the worst possible taste (May 10th). What, exactly, was *The Economist* trying to say? This in a week when we were told that Christianity in Britain is losing its appeal at a rapid pace and, according to Cherie Blair, her husband is still advising Gordon. Too much potential for misinterpretation in one cover. Tut, tut.

Dina Medland
Sevenoaks, Kent

SIR – It is hard to know what message Mr Brown should take. Despite his many wounds, St Sebastian did not die from his ordeal by arrows and was nursed back to health. However, when Emperor Diocletian discovered St Sebastian was still alive, he was beaten to death and his body thrown into the sewer.

James Sergeant
London

SIR – I was dismayed and shocked to see the way you placed the head of the middle-aged Mr Brown on the body of St Sebastian, who was in all likelihood a young man when he suffered his martyrdom. Judging from the many paintings of this event I myself have seen, you have chosen to show the pretended naked body of Mr Brown in a more indecent way than Mantegna, Botticelli, El Greco, Rubens and Kokoschka, to name but a few. And who does the gleeful face of Mr Blair represent? The devil?

Caroline Forestier
London

Bridging the Gulf

SIR – Your briefing on the Gulf economies began by noting that the region “is full of loud architectural statements” (“How to spend it”, April 26th). Sadly, the quick returns on these megaprojects have undermined investment in local venture funding and a true knowledge-economy. Without the talent to fill all that new space, the region will become the world's largest, and emptiest, building site.

The consultant-led, top-down approach that has given Dubai a “Culture Village” and a “Business Bay” (why not name them after great Islamic artists and scientists?) has proven less successful at promoting the risk-taking required to generate local talent. There is now a new generation of young Gulf Arabs who are generally Western-educated and are more interested in building their countries than retiring to Knightsbridge. Creating inspiring opportunities by and for that demographic is the single most crucial hurdle in the Gulf's development.

As the oil dries up, there will be no second chance if the Gulf economies fail to seize the opportunity, reverse the brain drain and create a truly diversified local economy that is not dependent on ever-glitzier projects. Without local talent, those flashy buildings will continue to compete for a copycat collection of property firms, financial-services companies and Fortune 500 satellite offices—to the detriment of Gulf society.

Stephen Cass
Managing director
Amphion Innovations

London

SIR – You unfairly describe the wealth of the Gulf states as a “windfall” and suggest it should be spent on stabilising the Middle East and not just “their fabulous pleasure domes” (“The rise of the Gulf”, April 26th). The ruler of Dubai has spent billions of dollars on clearing mines in Lebanon, on housing Palestinians and on schooling children all over the region, to name but a few initiatives.

One wonders if it would remotely occur to you to ask whether the British government should spend its “windfall” from the City on stabilising Europe's economy and not just on Buckingham Palace, Windsor, or any of the queen's other pleasure domes.

F.H. Mikdadi
Dorchester, Dorset

Historical perspective

SIR – Joseph Abdel Wahed makes the claim that Jews were brutally expelled by Arab countries when Israel was founded (Letters, May 10th). As a Middle Eastern Jew who was a teenager in the 1950s, I never thought that my family and many thousands of Jews in my native country were expelled, let alone brutally expelled. Of course Arabs in general were not happy with the creation of the state of Israel and viewed all Middle Eastern Jews with suspicion, and there was discrimination. But to speak of expulsion or brutal expulsion undermines the continued real and brutal treatment of the Palestinians.

Victor Sasson
New York

SIR – With respect to Mr Wahed, the big difference between Jewish and Palestinian refugees is that the creation of Israel provided the former with a state that was eager to take them in, while the same event deprived the latter of such a luxury.

Greg Bowler
Dublin

Margaret Thatcher's record

SIR – I was astonished to read, in your article on Nicolas Sarkozy's first year in office, the assertion that “Some of the boldest reformers did little in their first 12 months; Margaret Thatcher neither began privatisation in Britain nor confronted the unions until her second term” (“The presidency as theatre”, May 3rd). This is utter nonsense.

Mrs Thatcher's first term saw the privatisation (among others) of the state-owned sector of the North Sea oil industry, the ports and Cable & Wireless, not to mention the active preparation of a number of other industries for privatisation. Her first term also brought in significant changes to laws regarding the closed shop and the legal immunities of trade unions.

As to the reforms in the first 12 months, income tax was sharply cut; pay, price and dividend controls were abolished; the medium-term financial strategy was launched; and exchange controls were abolished, to name but a few reforms. It is true that so far as taxation, privatisation, and the unions are concerned even more was done in our second term. But the reforms of both the first 12 months and first term of the Thatcher government far exceeded that of any other government over the past 50 years.

Nigel Lawson
House of Lords
London

Not so cuddly

SIR – The contention that “the Russians have a somewhat different approach to the law” is perhaps reflected in the chess match illustrated in the cartoon that accompanied your article on the European Union and Russia (“Divide, rule or waffle”, May 3rd). While the EU delegation squabbles over its next move, the great Russian bear has sneakily sidestepped certain laws of the game and rearranged its position.

The Russian king and queen, the two most important pieces, have swapped places. Could they possibly resemble Vladimir Putin, the prime minister, and Dmitry Medvedev, the president?

Babak Moussavi
London

SIR – *Medved* means “bear” in Russian, and May is bear awareness month in America. For those who find themselves in a confrontational situation with a bear, the official procedure, according to the park service, involves talking to the animal “in a normal voice”, even though bears “often make bluff charges.” However, if it gets too close you should “raise your voice and be more aggressive ...never imitate bear sounds or make squealing noises.” If all else fails, the classic advice remains “fall to the ground and play dead”.

Sami Torstila
Helsinki

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Afghanistan

A war of money as well as bullets

May 22nd 2008 | JALALABAD AND LASHKAR GAH
From The Economist print edition

A La Guardia

The Americans are learning the tricks of the Great Game quicker than the British, who invented it. But a weak and corrupt Afghan government is hobbling them

THE Taliban came at dawn, catching the policemen by surprise while they were at prayer. Fifty of them attacked from three sides, using AK-47s, rocket-propelled grenades and mortars. Closing in for the final assault to cries of “Allahu Akbar!”, they called on the policemen to surrender.

That, until recently, is just what the Afghan police would have done. But this time the young police chief, Daryakhan, decided to hold out behind his new American-built fortifications, shouting back: “This is my country. You are the agents of Pakistan.” In the subsequent fighting the police lost an observation tower, but Daryakhan had a better asset up his sleeve. He called for help with a satellite telephone, and in minutes American Apache helicopters clattered overhead to break the Taliban attack. Several insurgents were later tracked by drones and killed.

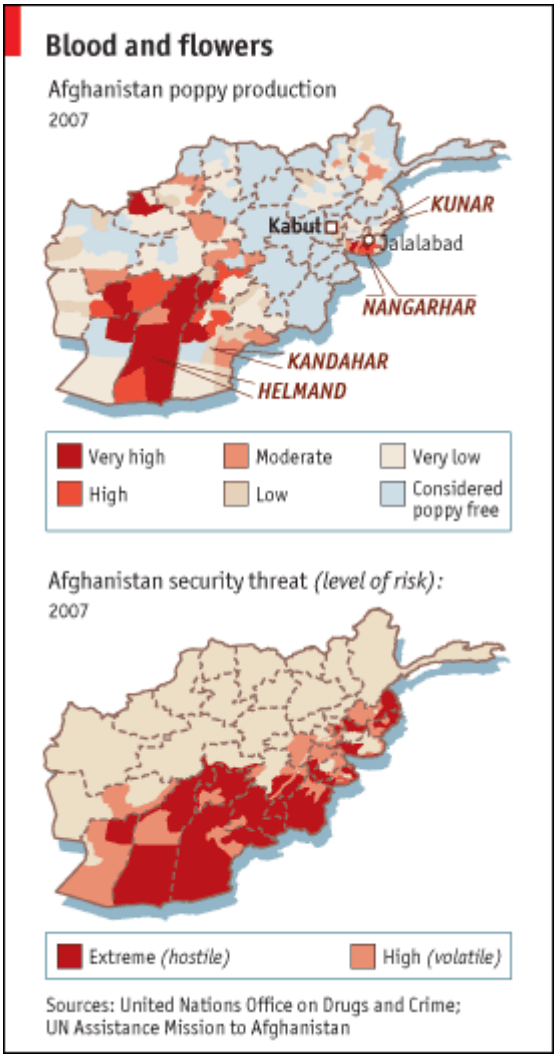
This action on April 25th at Charbaran in Paktika province, at the crossroads of infiltration routes from Pakistan, is a footnote in the seventh year of the war in Afghanistan. It was not mentioned in NATO or American reports. Even if it had been, it would quickly have been eclipsed by the uproar in Kabul two days later, when insurgents opened fire on a military parade attended by President Hamid Karzai, as well as by Afghan and foreign dignitaries. At least three people were killed.

But events at Charbaran were important in one respect: in a counter-insurgency strategy that is summed up by the catchphrase “clear-hold-build”, Afghan security forces, backed up by American power, are showing that they can hold areas cleared by the Americans. In a war that has often gone from bad to worse, this is good news for NATO.

A record number of Western soldiers—232—died in Afghanistan last year, and 2008 is unlikely to be better. Some 8,000 Afghans were killed in 2007, more than 1,500 of them civilians, according to United Nations estimates. Much of the Pushtun belt in the south and east, where the insurgency is most intense, is deemed too dangerous for humanitarian workers. NATO says the Taliban's increasing resort to suicide-bombs is a sign that they are weakening. Equally, it could be a sign that the insurgents are getting cleverer.

General Dan McNeill, the American commander of the NATO-led International Security Assistance Force (ISAF), notes that his mission is seriously “under-resourced”. Yet he suggests that the Afghan army and police will become strong enough by 2011 to take the lead in most areas, allowing NATO to start

reducing its forces and to take more of an advisory and support role—providing, for example, embedded advisers who can organise air support and medical evacuations.



The Afghan army is the most respected institution in the country. Western trainers say that, in contrast with Iraqi forces, Afghan soldiers have little fear of closing with the enemy; if anything, the problem is holding them back so that Western aircraft can have a clear shot at insurgents. Thanks to a beefed-up training programme, paid for largely by America, the Afghan army has grown to more than 50,000 troops; it has started conducting large-scale operations alone and is building up an air force. By 2010 it is due to expand to 80,000 men. The often corrupt Afghan police are being retrained en masse.

Nobody thinks these forces, even at full strength, will be anywhere near large enough. Afghanistan, though bigger than Iraq geographically and with a roughly comparable population, has less than a third as many security forces employed, whether Western or indigenous. Still, Afghan forces are due to take charge of the capital, Kabul, in the coming months. In Nangarhar province, the gateway to Pakistan, where al-Qaeda had several camps in Taliban times, the Afghan army and police are doing most of the security work in Jalalabad and other main towns, while American forces try to secure the borders.

The Afghans will have their work cut out. A suicide-bomb killed 18 people in the district of Khogiani, near Jalalabad, on April 30th. Ten days later, villagers in the district of Shinwar blocked the road and threw stones at police in protest at the alleged killing of three civilians by American forces. Afghan police opened fire, reportedly killing one man and injuring others.

That said, American commanders feel Nangarhar is ripe for investment in roads, airports and electricity generation. Their confidence contrasts sharply with the pleas for help from the embattled Canadians in Kandahar and the defensiveness of the British in Helmand. Perhaps the most striking evidence of the pacification of Jalalabad is the sight of American Humvees waiting patiently at traffic lights.

Green fields, and purple

Detailed data on security are hard to come by in Afghanistan. Even the UN declines formally to release its "accessibility map", which these days depicts a country in two halves: a relatively quiet north and west and a restive south and east where, with few exceptions, the risk to humanitarian workers is deemed to be either "high" or "extreme".

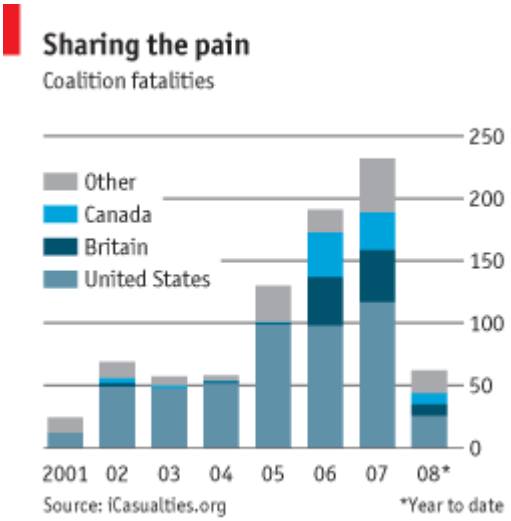
Few dispute that the American-controlled east of the country is faring better than the south, where other NATO allies are in charge. Although America accounts for more than half the foreign forces in Afghanistan (divided roughly evenly between ISAF and its own counter-terrorist mission, Operation Enduring Freedom), it has suffered fewer deaths than its allies this year.

The differences between the east and the south are most apparent from the military helicopters that skim the treetops at breakneck speed. This year the fields in Nangarhar and Kunar are green with wheat. Helmand and Kandahar, though, show the pink and purple patchwork of illegal opium poppies. Insecure areas provide the most fertile ground for poppies, and southern Afghanistan is the most insecure. The opium and heroin trade, in turn, finances the insurgency and corrupts the government.

Since Europeans cannot or will not commit more troops against the Taliban, the war effort in the south shows signs of being re-Americanised. Last year saw a mini-surge, with an extra American brigade deployed to Afghanistan when five more were sent to Iraq. This year an additional marine expeditionary unit—a 2,400-strong force with more air power than the whole 7,500-strong British task-force—has been deployed to the south for seven months to disrupt arms- and drugs-smuggling routes in Taliban strongholds.

There is talk of sending two more American brigades, about 7,000 soldiers, and of placing the southern region under permanent American command. This might improve things. At present, each national command has different priorities and allied units are rotated every six months, compared with 15 for the Americans (to be reduced to 12 months later this year). General McNeill, who took over as ISAF commander in February last year, says he is "on my fourth commander in the north, the second in the east, the third in the capital, the third in the south and the third in the west." The military effort, he says, needs more consistency.

All this is wounding to allies, particularly to the British army with its proud military heritage. It has deployed by far the largest contingent after America and has lost 96 soldiers. It was the British who first played the Great Game in the Hindu Kush to keep Russian influence at bay; Winston Churchill fought on the frontiers of British India against Afghan tribesmen. "To the ferocity of the Zulu", Churchill wrote of the Pushtuns in 1898, "are added the craft of the Redskin and the marksmanship of the Boer." Little has changed.



There are underlying reasons why the south is more troublesome than the east: its tribal structures are weaker, making it harder for elders to make deals stick; it is more remote from Kabul and the main trade routes; the population is less educated and more xenophobic; and it is the ideological heartland of the Taliban. That said, a growing number of British officers grudgingly recognise that America is learning the lessons of irregular warfare, drawn mainly from British colonial experience, better than the modern British army.

After much trial and error, the allies more or less agree on the tenets of counter-insurgency. The objective is not so much to kill the enemy as to protect the population and extend the authority of the Afghan government; development, dialogue, amnesties and reconciliation are important tools for weakening the insurgents. Such ideas are as old as the Afghan hills. One senior British officer quotes the ninth-century Muslim scholar, Ibn Qutayba:

> There can be no government without an army
> No army without money
> No money without prosperity
> And no prosperity without justice and good administration.

How to turn such theories into practice? The Americans, say the British, have the advantage of time and

resources: they have been in the east ever since the fall of the Taliban in 2001, whereas the British only got to Helmand in 2006. More important, the Americans have more forces at their disposal. They have been able to deploy right up to the border with Pakistan, whereas the British and Canadians are more thinly spread and have surrendered the southern frontier, and much of the countryside as well, to the insurgents.

America's slush fund

Probably the most striking difference between the Americans and the British is in their use of money. Britain channels most of its economic aid through the government in Kabul in the hope of building up the bureaucracy there, whereas America finances private contractors to carry out big projects, such as road construction and power stations.

For American commanders, “money is bullets.” They have at their disposal a slush fund, worth hundreds of millions of dollars, known as the Commander's Emergency Response Programme (CERP). This can be used for any number of schemes—from roads to clinics and schools—that help win local support. CERP is used to build “cultural centres” (ie, mosques) and distribute Korans to show that the foreigners respect Islam; it finances radio stations that counter insurgent propaganda; it pays for food aid, blankets and visits by doctors and vets. In short, it brings a government presence and some economic development to parts of Afghanistan where aid workers fear to venture.

In Kunar province, one of the most turbulent in the American sector, valleys that last year proved deadly to American forces are being pacified. Troops will clear an area of insurgents and seek to stabilise it by bringing in a new road in consultation with village elders, who are expected to do their bit to keep bad elements out. Sometimes a new school will be set up in a hostile village as the precursor to the arrival of American and Afghan government forces.

Roads are especially favoured, because they allow remote villages to sell their produce and enable Afghan forces to move quickly to trouble spots. The recent opening of a new road linking the Pech valley to the provincial capital, Asadabad, resulted in a quadrupling of live births in the town's hospital as villagers were able to get medical help. The Americans unashamedly outbid the insurgents: if the rebels pay $5 a day for a fighter, the Americans will offer $5.50 a day for road labourers. “Where the road ends the insurgents begin,” says one American officer.

“CERP is a nuclear weapon; it is the asymmetrical weapon of choice,” says Colonel Mark Johnstone, deputy commander of the 173rd Airborne Brigade Combat Team, based in Jalalabad. “I really pity other nations that don't have it.” Indeed, British military commanders watch the Americans with envy. Their civilian bosses, however, believe that soldiers cannot be trusted with money; instant projects are not sustainable, they say, and the aim must be to create long-term development and build up the capacity of Afghans to run their own affairs.

At best CERP provides “artificial resuscitation” rather than real treatment; at worst, as when schools are built without teachers to staff them, the Americans end up constructing what one British official called “the world's most expensive camel sheds”. The Americans reply that CERP projects are increasingly directed by provincial and district governors, in line with plans drawn up by ministries in Kabul. Colonel Johnstone argues that “for every bad CERP project there are ten good ones.”

American commanders now consider the “human terrain” of tribal allegiances to be just as important as valleys and mountains. The Taliban and their allies have learnt to superimpose their insurgency on tribal rivalries and grievances. In Helmand last year a newly arrived British marine major, Tony Chattin, said he felt like “a man in a dark room feeling my way”. He thought British soldiers “will never understand the hidden agendas and history of every tribe, sub-tribe and compound.”

At least some American officers seem determined to prove it can be done. The briefing room of one brigade headquarters has a poster summarising the tribal code of honour known as *pushtunwali* which, in Churchill's view, “is so strange and inconsistent, that it is incomprehensible to a logical mind.” In Naray, at the eastern end of Kunar, Lieutenant-Colonel Christopher Kolenda, commander of 1st Squadron, 91st Cavalry Regiment, can list who fought whom, in his particular corner, from Victorian times to the Soviet invasion. The underlying problem, he says, is the atomisation of society: tribal elders have lost control of their young men. America's aim is not just physical reconstruction but a social transformation to restore the elders' authority.

Another human factor is at play, too. The Americans are more deeply committed to winning in Afghanistan—militarily, economically and in terms of mental effort—than any of their allies. They have rewritten their counter-insurgency doctrine, and incorporated all manner of civilian functions—anthropologists, political scientists and agricultural experts—into their ranks. By serving the longest tours, Americans learn faster. Their soldiers may yet end up paying the cost in terms of mental health. But for the moment America sees itself at war, while Britain is still engaged in an optional operation.

The enemy within

The most serious problem in Afghanistan, however, will not be solved by new military tactics or command structures. It is the weakness of the Afghan government. Corruption is rampant, from the lowly airport security guard demanding bribes from foreign travellers to government officials who occupy gaudy houses known as “narcotechture”. Afghanistan produces more than 90% of the world's opium and a growing share of its cannabis. If Mr Karzai were not a client of the West, his country might well be classified as a narco-state.

The political mood in Kabul is darkening, and Mr Karzai's popularity is declining even among some of his own officials. A year ago many Afghans regarded Mr Karzai as likeable but weak; these days, he is seen in a more sinister light. Many want him to step down, although it is hard to see a credible alternative. Some complain about his reluctance to confront warlords. Others express disgruntlement over the president's half-brother, Ahmed Wali, the chief power-broker in Kandahar province and, according to widespread rumours denied by the government, a big name in the drugs trade. Much of the former Northern Alliance, the coalition of Tajiks, Uzbeks and Hazaras that helped install Mr Karzai in power, is now openly in opposition. With elections looming next year Mr Karzai is less likely than ever to challenge powerful vested interests.

Instead, he seems to be courting religious support. Some members of parliament are pushing for laws banning women from going outdoors without a male relative. The government has ordered private television stations to remove popular Indian soap operas on the ground that they are immoral. But Jahed Mohseni, the entrepreneurial Australian-educated director of the Moby group, which owns successful stations such as Tolo TV, says the serials are very “conservative”. He sees a process of “re-Talibanisation”, and growing curbs on freedom of speech. Sandbags have recently been placed on the roof of his station. The outside world, Mr Mohseni says, has to interfere more forcefully. Others in Afghanistan, even senior figures such as the education minister, Haneef Atmar, want foreign countries to name and shame corrupt officials.

That is easier said than done. Western diplomats worry that intervening in Afghan politics would make Mr Karzai look like a puppet, or provoke a nationalist backlash. Some Afghans retort that Mr Karzai is already seen as a stooge, and that Western silence over his misdeeds risks looking like acquiescence. Despite his utter dependence on the West economically and militarily, Mr Karzai is jealous of his “sovereignty”. He blocked the appointment of a British politician, Paddy Ashdown, as the new UN envoy for fear that he would be too meddlesome. And a call last month by the Canadian foreign minister for the removal of the governor of Kandahar, Asadullah Khalid, only strengthened the governor's position.

Allied soldiers will continue to fight, build roads and host meetings with tribal elders in the hope of isolating the insurgents. But in the longer term, unless the Kabul government can be made to work more effectively, their efforts and sacrifices may be in vain. As Ibn Qutayba put it a millennium ago, there can be no lasting government without “justice and good administration”. Even American money and power will struggle to achieve that.

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Gay marriage

The guys next door

May 22nd 2008 | PALM SPRINGS
From The Economist print edition

AFP

California's highest court has revived a bitter dispute over gay marriage. But the fight will be different this time

LATER this year Harvey Stern plans to marry another man in Palm Springs town hall. A wedding strikes him as the appropriate way to solemnise a 25-year relationship—and besides, it is about time his straight friends gave him some presents. Does he think that local people will be alarmed by the prospect of a gay wedding? Not really, he says. Anybody who has lived in Palm Springs for the past few years is probably expecting it.

Mr Stern's plans have come together since May 15th, when California's Supreme Court ruled that a ban on same-sex marriage was unconstitutional. Although the state is the second, after Massachusetts, to permit gay weddings, last week's ruling is especially far-reaching. Unlike Massachusetts, California will marry couples from other states. Gavin Newsom, who set the court case in motion by opening San Francisco's city hall to same-sex marriages in 2004, declared that California was once again leading the nation.

Or perhaps California will once again lead the backlash. The court's ruling revives memories of 2004, when the Massachusetts decision and Mr Newsom's act of civil disobedience fired up a conservative army. That year a flurry of ballot initiatives banning gay marriages ended up on general-election ballots across America. Many observers, including Dianne Feinstein, California's senior senator, blamed high right-wing turnout for George Bush's victory over John Kerry.

A few are hoping for a repeat this year. James Dobson, the head of Focus on the Family, a conservative Protestant group, spluttered that the ruling was “judicial tyranny”. He called on Californians to ban same-sex marriage, as 26 other states have done. They should get the chance: next month an initiative that defines marriage as a union between a man and a woman will almost certainly be approved for November's ballot. A similar measure will appear in Florida. Both sides are preparing for a nasty fight. Yet there are several reasons to think that the dispute will play out differently this time.

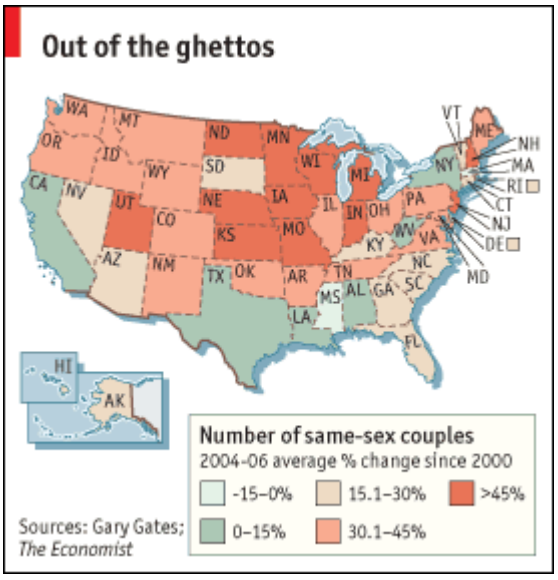
The first is that Mr Dobson is wrong. The drive for gay marriage in California has not been led by judges. The state legislature has twice passed bills recognising same-sex marriages; both bills were vetoed by Arnold Schwarzenegger, the governor, who argued that the issue ought to be resolved by the courts. Although California has plenty of Christian conservatives, they are less tightly bound to the Republican Party than in other states. Rick Warren, by far California's most influential pastor, strives to appear non-partisan.

And Republicans are hardly presenting a united front against gay marriage this year. Although John McCain opposes it, he says the issue ought to be left to the states. Mr Schwarzenegger promises to uphold the decision of the state Supreme Court (which is, incidentally, dominated by Republicans). Last summer Jerry Sanders, the Republican mayor of San Diego, tearfully announced that his daughter was a lesbian and that he could no longer oppose same-sex marriage.

Another big difference is that, assuming the court does not suspend its own ruling, gay weddings will begin next month in places like Palm Springs. The town, which is represented by a Republican congresswoman, a Republican state senator and a Republican assemblywoman, is not easily caricatured as a liberal enclave. It is also increasingly typical of gay America.

The last full census, in 2000, revealed that Palm Springs had a higher proportion of same-sex couples than San Francisco. In California it was second only to West Hollywood, in Los Angeles. Since then it has become a lot more gay. Yet it feels utterly unlike ghettos such as West Hollywood or the Castro, in San Francisco.

Palm Springs has a couple of bars with a strict leather-and-denim dress code, and several hotels where clothing is optional. For the vast majority of its gay residents, though, social life revolves around nothing more transgressive than cocktails and dinner parties. The Golden Rainbow senior centre, which Mr Stern helps run, has started a lesbian bridge night. Although some parts of town are pinker than others, Palm Springs contains no gay ghetto.



Across America same-sex couples are becoming more ordinary. Their numbers are growing most rapidly outside traditional magnets like California, New York and Vermont (see map). One of the steepest increases has been in Utah, probably America's most conservative state. Indeed, of the 34 states with above-average increases in the number of gay couples, 21 voted for Mr Bush in 2004. This does not mean there has been a sudden outbreak of homosexuality in conservative states; rather, it means gay couples in such areas are swiftly becoming more open about their relationships. That alters the politics of gay marriage.

The residents of Palm Springs who vote to define marriage as a union between a man and a woman will not just be voting against a bunch of out-and-proud folk in a distant city whose official slogan is “Only in San Francisco”. They will be voting to defy the wishes of their rather ordinary neighbours. For them, the decision to annul same-sex marriages will be personal, even painful. They may do it anyway.

Although California's major pollsters reckon the gap is closing, they have never found a majority of residents in favour of same-sex marriage. Whites are evenly divided on the subject, whereas Latinos are opposed and blacks are fiercely opposed. February's primary election suggests turnout among both minority groups will be high this November. The fact that the legislature has twice approved gay marriage means little: because of the way its districts are drawn, California's legislature is more liberal than the state's voters overall.

The measure intended for this November's ballot is just 14 words long: “Only marriage between a man and a woman is valid or recognised in California.” It may prove rather too brief. David Cruz of the

University of Southern California points out that it does not address the court's central finding that same-sex couples are guaranteed equal treatment. If the measure passes, expect another round of litigation to straighten out this matter and perhaps yet another one to clarify the status of couples who tie the knot before a ban.

A knottier problem still is presented by same-sex couples from other states who marry in California. What will be their status when they return home? California's top court may not change the outcome of the presidential race, but its ruling will reverberate well beyond November.

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The Democrats

Close but no cigar

May 22nd 2008 | WASHINGTON, DC
From The Economist print edition

The contest that refuses to die

ON MAY 20th both Democratic candidates had a chance to declare themselves winners. Hillary Clinton, speaking in Louisville, Kentucky, celebrated her two-to-one victory over Barack Obama in the state. A little later Mr Obama, speaking in Des Moines, Iowa, the state that turned him into a front-runner back in January, celebrated the fact that he was “within reach” of locking up the nomination.

Getty Images

Beat that, Hillary

Mrs Clinton's gigantic victory in Kentucky has steeled her determination to run the race to the very end. She will contest the three remaining primaries (in Puerto Rico, Montana and South Dakota). She will also present a vigorous case to a special meeting of the Democratic National Committee on May 31st that the votes in Florida and Michigan should be counted. She told supporters in Louisville that she would keep campaigning until the party had a nominee—“whoever she may be”.

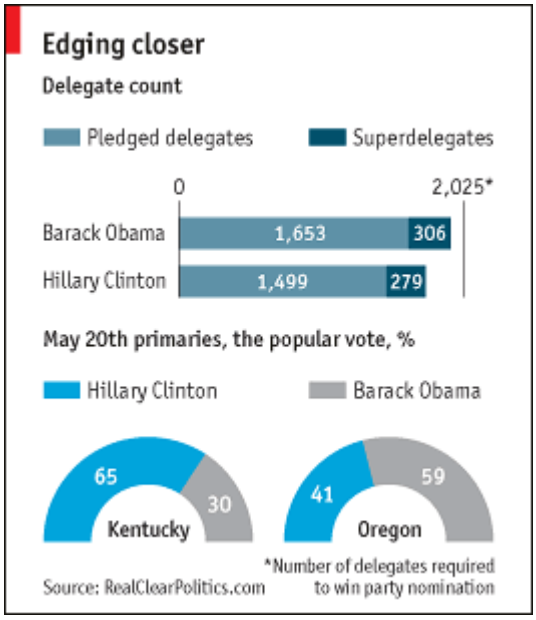
But Mrs Clinton is fighting against both the rules of the game and the tide of opinion within her party. After this week's contests Mr Obama has the majority of the pledged delegates. Mrs Clinton's only chance of winning is for the superdelegates to move en masse into her camp. She can theoretically make a case for this, based on her strong performance in battleground states and, quite possibly on having actually won more votes than Mr Obama (see article).

But it would cause civil war in the party (Chris Rock, a black comedian, jokes that nobody had ever heard of superdelegates until a black man looked like winning the nomination). Besides, the superdelegates are moving in the opposite direction. Mr Obama has picked up a further 22 of them since his crushing defeat in West Virginia on May 13th compared with Mrs Clinton's four. The majority of the undeclared superdelegates come from states that Mrs Clinton won, suggesting that they have reservations about backing her.

In her pursuit of her seemingly impossible goal Mrs Clinton has nevertheless exposed a serious weakness in Mr Obama's candidacy—his failure to connect with working-class whites, particularly in the Appalachian heartland. The usual rule in primaries is that voters flock to the winning candidate. But Mr Obama has now lost both West Virginia and Kentucky by huge margins. Mrs Clinton carried three-quarters of white voters in Kentucky who earn less than $50,000 a year and lack a college degree. Only 33% of Mrs Clinton's supporters in Kentucky told exit pollsters that they would vote for Mr Obama if he is the Democratic nominee in November.

Why is Mrs Clinton putting her party through such agonies? She claims she has an obligation to provide a voice for an important

Democratic constituency—the “silent voters” that the media and the party establishment would prefer to ignore. Some of her closest supporters worry that she is exacerbating divisions within her party. But from the purely personal point of view her tenacity makes sense. She will be the obvious candidate in 2012 if Mr Obama goes down in defeat in November. She will also have a good chance of inheriting Edward Kennedy's position in the Senate as the lion of liberalism and the voice of a huge Democratic constituency. The family that gave America the New Democrats will live on as the guardian of the Old Democrats.



Mr Obama clearly has some hard work ahead of him as he moves from candidate to nominee. The Democratic Party has never produced a candidate who excites such adulation from his sort of voters. He attracted a crowd of 75,000 people in Portland, Oregon on May 18th. He raised $31m in April—including money from 200,000 new donors. (Mrs Clinton raised $22m, still an astonishing amount; but her campaign is more than $20m in debt).

But equally it has seldom produced a candidate who encounters such strong resistance from core Democratic voters. Mr Obama is capable of doing well among white working-class voters: witness his victories in Wisconsin and Missouri. A recent poll shows him doing just as well as Mrs Clinton against John McCain among non-Hispanic whites and people without college degrees. But Appalachia could yet prove to be his Achilles heel.

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The popular vote

She says count the vote—but how?

May 22nd 2008
From The Economist print edition

You can prove anything with electoral statistics

MIGHT Hillary Clinton end up winning more votes in the primaries than Barack Obama? It wouldn't necessarily alter anything: rules are rules, and it is delegates, not raw votes, that count. But it would be embarrassing for the front-runner, and it might give a few party elders pause for thought.

With only three primaries left, Mr Obama is ahead, with 16.7m votes to her 16.2m, a slender edge of 450,000. But that is not the end of the story. It is only fair to take some account of what happened in Florida and Michigan, which were stripped of their delegates for voting too early, but which are electorally vital and whose views ought to carry some weight. In Florida Mrs Clinton won 295,000 more votes than Mr Obama; in Michigan she won 328,000 while he won none because his name was not on the ballot. Add these in, and Mrs Clinton is magically 174,000 ahead.

That, of course, is unfair to Mr Obama, who took his name off the Michigan ballot to respect party rules. So add to his total the 238,000 people who voted “uncommitted”, the only way they could register a preference for him. Now he is back ahead, by 64,000 votes. He deserves another 100,000 votes as four of the states he won do not release vote counts: these can be estimated. But when Puerto Rico votes on June 1st, its largely Hispanic population could give a boost worth at least a couple of hundred thousand votes to Mrs Clinton, putting her back in the lead. Like Al Gore in 2000, though, the popular vote will probably be her only victory.

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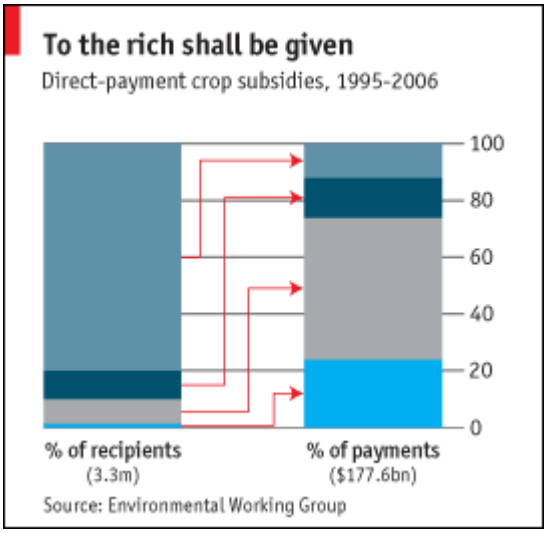
The farm bill

A harvest of disgrace

May 22nd 2008 | WASHINGTON, DC
From The Economist print edition

Congress at its worst



IF YOU measure the success of a pressure group by its ability to cram lousy policy through Congress, you might imagine that Big Oil or Wall Street would top the league: they are the lobbies most berated on the campaign trail. You would be wrong. If there were any doubt, the past few days should have confirmed that America's farmers are the capital's handout kings.

Consider their latest masterpiece, the 2007 farm bill that Congress this week delivered, several months late, to George Bush. Congress and the farmers have conspired to make an already unjust agricultural policy—a system that has subsidised the “farming” activities of such paupers as David Letterman and David Rockefeller—even worse. Through a complicated and overlapping system of government-sponsored insurance, counter-cyclical assistance, disaster aid and legacy payments tied to nothing, the five-year, $307 billion bill lavishes cash on wealthy farm households, the main restriction on collecting it being a means test that applies to couples making more than $1.5m a year. And even that can be avoided by employing a reasonably competent accountant.

Shockingly, the bill's authors tied some future subsidy payments to today's record commodity prices, therefore guaranteeing already well-off farmers high incomes. Commercial farm households, which get most of the largesse, will have an average income of $229,920 in 2008, says the Agriculture Department. And it means, as the department points out, that the government could owe billions in subsidy payments to these big farmers if and when prices dip again.

Farmers of all kinds get a slice of the action. American sugar producers, for example, are guaranteed 85% of the domestic sugar market, according to the bill. This measure will drain $1.3 billion over ten years from federal coffers, and will force consumers to pay an extra $2 billion a year in higher sugar prices.

The bill invites new trade disputes: Brazil is already considering a WTO suit over the barriers to ethanol produced from sugar cane. Congress has also ignored the world's hungry, declining to soften a rule requiring the government to buy all foreign food aid from American farmers and transport it on American ships.

Most legislators probably know the farm bill is a disgrace, but they voted for it overwhelmingly anyway, revealing the cynical genius of the farm lobby. The bill's backers scared urban congressmen about losing money for food stamps, a programme contained in the bill. They scared rural ones into worrying about offending farmers. They scared Speaker Nancy Pelosi and the Democratic leadership about maintaining their House coalition, which is built on new wins in rural districts.

Resistance disintegrated when a few sops were thrown. Urban interests were promised support for the purchasing power of food stamps, which has declined since the 1990s. Ms Pelosi and other western legislators got money for fruit and nut growers. Mitch McConnell, the Senate's minority leader, even got tax breaks for the racehorse industry in his native Kentucky.

Mr Bush vetoed the measure on May 21st. But the bill won so much support in Congress that the legislative branch has enough votes to override him, thanks to Republicans voting with the Democrats against their own president. John McCain boldly voted against the bill; Barack Obama didn't. The fat cats

of agribusiness can rest easy for now.

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Noah on stage

Come to the ark

May 22nd 2008 | BRANSON, MISSOURI
From The Economist print edition

A musical of biblical proportions

EVERYONE in America knows and loves the story of Noah, with its flood, its ark and its animals marching in two-by-two. On May 24th the Millennium Theatre in Branson, Missouri, will raise the curtain on “Noah—The Musical”, featuring more than 40 actors, along with 75 live animals and 75 animatronic ones. Branson, one of the great musical capitals of America, has no shortage of theatres, but the new Millennium is its largest building and the country's largest Christian theatre.

The cast, animals and robots included, performs on a 330-foot (100-metre) wrap-around stage in a 339,000-square-foot building. The theatre's dome, which resembles an ancient temple, can be seen from many points around Branson's rolling surrounds. The huge complex has its own training facility and indoor zoo for zebras, camels, donkeys, llamas and even skunks. The animals are trained to handle stage lights, applause and music. Some beasts parade down the theatre's aisles to board the four-storey ark.

Branson has more than 50 theatres featuring an array of acts, from old crooners like Andy Williams to Yakov Smirnoff, a Russian comedian. But none is like the Millennium, which is owned by Sight and Sound Theatres in Pennsylvania. The theatre has its own generators so that if local electricity cuts out, the show will go on. Near the stage is a green room for the animals where they will be dressed in their costumes. The musical will run for two years before the company adds new shows, on other biblical themes.

Branson is a logical spot for the spectacle. The town of 7,000 got its touristy start with “The Shepherd of the Hills”, based on a 1907 feel-good novel that brought visitors from around the country to the Ozark mountains. Today the play is America's longest-running outdoor drama. Tiny Branson manages to attract 7.2m tourists a year and is reachable within a day's drive by half of the country's population. Although tourism hasn't slowed as much in Branson as other parts of the country, that could change because of rising petrol prices. But Branson hopes that Noah and his ark will keep the town afloat during the summer months.

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Body art

Tattoo you

May 22nd 2008 | NEW YORK
From The Economist print edition

Inked skin has gone mainstream

TATTOOISTS masterfully etched Japanese-inspired fantasies and intricate tribal designs on to living bodies at the 11th annual New York City Tattoo Convention. The event, held over the weekend of May 16th-18th, drew the obvious burly biker and rockabilly types, but also a surprising number of families. Vegan O'Donnell, aged three, and her one-year-old brother Sidney watched as their mother got a tattoo on her torso. Josh Thompson, winner of “best overall tattooed person” at the convention, got his first tattoo, an eagle, in 1984, when he was 18. Today his whole body, bar face, neck and naughty bits, is covered with tattoos. Such dedication is no longer unusual.

Over the past decade, with safety standards improving and with famous actors and sportsmen displaying them proudly, tattoos have become ever more common. According to a 2006 Pew Research Centre study, 40% of those aged 26 to 40 have one. In New York some 1,400 tattoo parlours have opened since tattooing was re-legalised in 1997 after a 36-year ban caused by fears of hepatitis. No longer a symbol of rebellion, a tattoo is now seen as art. Karen Bettez Halnon, a sociologist at Penn State University, says tattoos are no longer a subculture; they appeal to almost everyone from doctors to bankers and even to soccer moms. “It's gentrification,” she claims.

Well-known marketers, such as Nike, Converse, Mountain Dew and Victoria's Secret have used tattoo designs as part of their brands. You can get a cover for your BlackBerry with a design sketched by a tattoo artist. Several Las Vegas casinos have opened tattoo parlours.

Traditionally, designs were simple: an anchor, a pin-up girl or just “Mom”. Now anything goes. “People no longer get something small for their first tattoo and are getting a whole sleeve [arm] done”, observes Jason Buhrmester, editor of *Inked*, a glossy magazine for tat-fans. Women usually choose the lower back for their first tattoo, a decoration now so prevalent that it has been nicknamed the “tramp stamp”.

A recent issue of *CosmoGirl!* advised its teen readers to “think before you ink”, as removing a tattoo is neither painless nor cheap. Ozzy Osbourne, who is well covered with ink, once wisely advised his daughter: “To be unique, don't get a tattoo. Because everybody else has got tattoos.” She got one anyway.

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Campus activism

Coming down from the trees

May 22nd 2008 | BERKELEY
From The Economist print edition

Appearances in the branches notwithstanding, Berkeley has changed

THE dreaded Hayward fault slices right through the football stadium of the University of California, Berkeley, leaving visible cracks in its walls. So the university needs to retrofit the entire thing and build a new fitness centre for the 400 athletes who practise there every day. The oak grove next door seemed the obvious place.

AP

Come up and see my nuts

Not to Zachary Running Wolf, a hirsute activist who perennially runs for mayor and has tattoos of black feet as a reminder that he is an elder of the Blackfeet nation. In December, 2006, on the day of the Berkeley-Stanford game, an annual fixture that draws throngs of tourists, he climbed up into the trees to protest against the plans. Others joined him, and for 16 months tree-sitters have been living in the branches. Varying between a dozen and a handful, the group includes anarchists, activists and travellers. None is a student.

The grove must be saved, says Doug Buckwald, who founded the group Save the Oaks at the Stadium, because it is a “magical place” and soaks up carbon. In it is one redwood tree and lots of coast live oaks, a species protected under local law, although the university has an exemption.

Mr Running Wolf offers another rationale. There are “thousands of bodies underneath us” of the Ohlone tribe, he says, and construction on this sacred burial ground amounts to “a hate crime; we call it Guantánamo Berkeley”. The secret truth, he explains, is that the Illuminati and Masons are behind the idea to build on the site, because the grove is at the intersection of compass lines connecting the Haas School of Business (money) with Alcatraz (state violence) and the Lawrence Berkeley lab that gave America nukes.

The tree-sitting itself is great fun, says Ayr, whose real name is rumoured to be Eric Eisenberg and who recently moved down from the trees to become “ground support”. He describes romantic moments playing music in the rain. Intricate pulley-systems and rope-bridges connect the trees into an arboreal village. A group called “the grandmothers” comes every Sunday with buckets of cooked food that are hoisted up. Other buckets, of excrement, are lowered at intervals.

The university has responded by building two fences around the grove—to protect passers-by from falling objects (and excrement), say campus guards; as preludes to violent oppression, say the tree-sitters. Dan Mogulof, a university spokesman, says that the allegedly ancient oaks were planted in a 1923 “landscaping project” and that “for every tree we cut down we will plant three new ones.” The redwood will be transplanted. Archaeologists have found “no evidence” that the grove is a burial ground but will

carefully monitor all excavations, he says.

Any day now, a county judge is expected to make a ruling, at which point campus police will bring the tree-sitting to “a safe and certain end,” says Mr Mogulof. This may go unnoticed by most students.

A generation ago, they would have been turning the town upside down. Today, they study. Berkeley's largest ethnic group is Asian-American. The ageing hippies in the city council find them shockingly conservative. When the campus police chief wrote an open letter explaining policies to deal with tree-sitters, 400 students wrote back, 90% in favour of removing them faster.

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Douglas Wilder

An icon moves on

May 22nd 2008 | RICHMOND
From The Economist print edition

The mayor of Richmond announces his retirement

DOUGLAS WILDER'S political career is all about firsts: in 1969, he became Virginia's first black state senator since Reconstruction. From 1990 to 1994, he was the nation's first elected black governor. Four years ago, he became the first directly elected mayor of racially divided Richmond in half a century.

But Mr Wilder's mayoralty is ending as so many of his previous successes have: with bitterness and frustration heaped on him from all quarters. Mr Wilder, who announced on May 16th that he would not seek another term, was elected in a landslide. He promised to clean up city hall, curb crime and forge peace between the blacks that control Richmond's politics and the whites that dominate its economy.

Instead, Mr Wilder—consistent with a history marred by public petulance and score-settling—picked fights with the city council and the school board, even trying to evict the latter from its offices. Richmond's professional baseball team left town after he mishandled talks to keep it. And the mayor even fell out with the businessmen who helped him to office over their pet project, a new downtown arts centre. These dramas reinforced an image of Richmond government that Mr Wilder had pledged to dispel: that it is dysfunctional, and that its leaders are more interested in their perks than in progress. The mayor moved about town with a police bodyguard that cost taxpayers $1.3m.

Though his approval ratings sank, Mr Wilder did do well on crime. He hired a new police chief, Rodney Monroe, formerly of Washington, DC, and on his watch murder and drug crime plummeted. But within days of Mr Monroe's decision to move to Charlotte, North Carolina, to take over the police department there, Mr Wilder announced his retirement. He had lost his strongest claim to another four-year term.

At 77, Mr Wilder has earned his rest. But few expect him to live out his days quietly at his mansion on Richmond's lovely James river. Mr Wilder was one of the first prominent politicians to endorse Barack Obama. Might a big federal job for the pioneer be in the wings? If so, expect another bumpy ride.

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Lexington

Indiana McCain rides again

May 22nd 2008
From The Economist print edition

The Republican cannot dismiss the question of his age with a few jokes

Illustration by Kevin Kallaugher

JOHN McCAIN is a master of jesting about his advanced years. He says people only turn up to watch him to see if he needs a “drool cup”. He amusingly called a young voter who asked about his age a “little jerk”. On May 17th he appeared on “Saturday Night Live” to claim that “I have the courage, the wisdom, the experience and, most importantly, the oldness necessary.”

But the question of Mr McCain's age is no laughing matter. Mr McCain turns 72 on August 29th—a day after the Democratic convention ends and three days before the Republican one begins. If he wins in November, he will be the oldest person ever elected to a first term as president. He faces a Democratic opponent who, at 46, is his junior by a quarter of a century.

Almost 30% of Americans tell pollsters that America is not ready to put a septuagenarian into the White House. The word that people most associate with Mr McCain is “old”. You can be sure that the Democrats will do their utmost to keep it that way. Jack Murtha (75) has proclaimed that the presidency is “no old man's job”. There is a website devoted to things that are younger than Mr McCain (the Golden Gate Bridge, plutonium, Coke-in-a-can, Velcro, 91% of Americans).

Mr McCain's age will ensure that one of the central debates in the election will be whether the Arizonan is the new Bob Dole or the new Ronald Reagan. The Obama camp is busy branding him as a Dole—a great man and a war hero, to be sure, but not the right person to lead the country into a bright new tomorrow. The two men do have a remarkable amount in common—from age (Dole was 72 when he ran) to war wounds, from a lengthy Senate career to a dark sense of humour. The McCain camp is equally busy painting Mr McCain as a Reagan—a figure with the strength of character and clarity of vision to get the big issues right. Again the two have a lot in common. Mr McCain is an adoptive Westerner who was inspired to go into politics by the Gipper.

Mr McCain has more than just humour on his side. He can point to his performance on the campaign trail—a gruelling test of fitness. Candidate McCain is a whirlwind of activity that leaves younger reporters shattered. He takes unfiltered questions at endless town hall meetings. He fills gaps in his timetable with interviews, not naps. He is fun to be with—verbally sharp and mentally agile. And he has kept up this pace for years: he put in 346 appearances for Republican candidates and causes in the two years running up to the mid-term elections in 2006.

Mr McCain can also point to a fair few other aged world leaders. Winston Churchill was 76 when he became prime minister for the last time. Charles de Gaulle held office until he was 78, Konrad Adenauer until he was 87. Nelson Mandela was 75 when he became president of South Africa. And then, of course, there was Mr Reagan. But these comparisons are risky. Churchill was a walking textbook of pathology in his last term. A stroke in 1953 incapacitated him so severely that his doctor, Lord Moran, wrote that he "will never again be the same man—he is really living on a volcano". In his second term Reagan was frequently detached from day-to-day business and displayed some symptoms of Alzheimer's. And ageing leaders tend to bring out the worst in their entourages. Advisers spend their time covering up their boss's frailties and jockeying for influence.

There is a reason why society expects people to spend their golden years playing golf or touring the country in giant recreational vehicles. Some people age better than others, of course: the 65-year-old Harrison Ford looks sprightly enough in the new Indiana Jones film. But eventually the mind slows, the arteries clog, the ability to deal with new challenges dulls. The announcement this week that Edward Kennedy (76) is suffering from brain cancer is a reminder of life's most basic truth. Is America really confident enough in Mr McCain's vitality to give him the most demanding job in the world? Not too many companies would even consider a man of his age for the CEO slot.

Sick transit

Mr McCain has hardly had an easy life. He suffered extensive injuries when he was shot down over North Vietnam—a broken knee, a broken shoulder and two broken arms that his captors refused to set. He was kept in a gruesome prison, and intermittently tortured, for five-and-a-half years. In 2000 doctors discovered that he was suffering from second-stage melanoma—an invasive form of skin cancer that, within a decade, claims the lives of about a third of people who are diagnosed with it. He smothers himself with sunscreen when he ventures out into moderate sunlight.

Mr McCain's age makes his choice of running-mate particularly important. He needs to choose a vice-president who will make a credible replacement rather than a partisan who can rally the base or merely deliver a useful state. Several governors—Tim Pawlenty of Minnesota (47), Charlie Crist of Florida (51) and perhaps Mitt Romney (61), the ex-governor of Massachusetts—might possess the necessary executive experience. Old-time Reaganites point out that the issue of Reagan's age evaporated when he chose a safe pair of hands in the form of George Bush senior as his running mate.

Mr McCain needs to be relentlessly open about his health (he was preparing to release detailed health records as *The Economist* went to press). He might also consider a radical gambit—pledging to run for only one term in office. Mr McCain worries that this would turn him into an instant lame duck—"quacking on inauguration day". Still, such a pledge would free him to put the national interest above electoral considerations. It would allow him to burnish his greatest selling point—his reputation as a ferocious reformer who is willing to take on any and every vested interest. It's a risk. But it might put a positive spin on his greatest weakness.

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Correction: Mohegan Sun

May 22nd 2008
From The Economist print edition

In a piece on gambling ("Bringing Vegas to the east", May 17th) we wrongly stated that Standard & Poor's had downgraded its rating on Mohegan Sun. Instead, it changed the outlook on its rating from stable to negative.

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Colombia and Venezuela

The FARC files

May 22nd 2008
From The Economist print edition

Eyevine

Just how much help has Hugo Chávez given to Colombia's guerrillas?

Get article background

THEY represent only one side of a story, and most of their claims have yet to be independently corroborated. But Interpol has now concluded that the huge cache of e-mails and other documents recovered from the computers of Raúl Reyes, a senior leader of the FARC guerrillas killed in a Colombian bombing raid on his camp in Ecuador on March 1st, are authentic and undoctored. The documents throw new light on the inner workings of the FARC. And they raise some very pointed questions about the ties between Venezuela's leftist president, Hugo Chávez, and a group considered to be terrorists by the United States and the European Union (EU).

Batches of the documents have been seen by *The Economist* and several other publications. They appear to show that Mr Chávez offered the FARC up to $300m, and talked of allocating the guerrillas an oil ration which they could sell for profit. They also suggest that Venezuelan army officers helped the FARC to obtain small arms, such as rocket-propelled grenades, and to set up meetings with arms dealers.

Venezuelan officials have dismissed the documents as fabrications. That was contradicted by Ronald Noble, Interpol's secretary-general, who announced in Bogotá on May 15th, after two months of study by a team of 64 foreign experts, that the computer files came from the FARC camp and had not been modified in any way. Mr Chávez called this “ridiculous”, questioning the impartiality of Mr Noble, who is American, and labelling him a “gringo policeman”. However, in one indication of their accuracy, the documents provided information that in March guided police in Costa Rica to a house where they found $480,000 in cash, as an e-mail suggested.

The FARC are in some ways a throwback to a past era in Latin America. In other ways they are part of the new face of organised crime in the region. Old-fashioned Marxists unmoved by the collapse of the Soviet Union, they have flourished since then by drug-trafficking and kidnapping. Their war against Colombia's elected government has almost no public support, especially since they showed no interest in making peace during three years of talks with the government from 1999 to 2002. Since then, a determined security build-up by Álvaro Uribe, Colombia's popular president, has put the FARC on the defensive, driving it into remote jungles and savannahs—and towards the country's borders.

Mr Chávez has long expressed sympathy for the FARC. But Colombian officials, backed by detailed testimony from guerrilla deserters, accuse Venezuela and Ecuador of more than rhetoric, saying they have turned a blind eye to guerrilla camps on their territory. The killing of Mr Reyes, a member of the

FARC's seven-man secretariat, underlined the point. The captured documents seem to confirm that FARC commanders have co-ordinated closely with Venezuelan army and intelligence officers on the border for several years, according to a Colombian official.

The documents also cast light on the FARC's strategic thinking. Its overriding objective seems to be to obtain international recognition as a “belligerent force” and to persuade the EU to stop labelling it a terrorist group. The guerrillas are desperate to establish a “strategic alliance” with Mr Chávez. But that was still just an aspiration in early 2007, the documents suggest. “We don't know if we enjoy their trust,” writes Jorge Briceño (alias “Mono Jojoy”), the FARC's military leader, to other members of the secretariat.

Contacts intensified last September after Mr Uribe asked Mr Chávez to mediate with the FARC to release the guerrillas' hostages, including Ingrid Betancourt, a politician with French and Colombian nationality. The secretariat agreed to send one of its members, Iván Márquez, to meet Mr Chávez in Caracas to talk about swapping the hostages for jailed guerrillas—but also, wrote Mr Briceño, “to lay the foundations for mutual political relations...even though this might be in the long term.”

At their meeting, Mr Chávez “approved totally and without batting an eyelid” a FARC request for $300m, Mr Márquez reported to his colleagues in a message published by Spain's *El País* and Colombia's *Semana*. In a long e-mail 12 days later, Mr Briceño notes that it was not clear whether the money was “a loan or for solidarity” but that the FARC should offer Mr Chávez help in return. According to a document obtained by the *Wall Street Journal*, Mr Chávez's interior minister, Ramón Rodríguez Chacín, asked the FARC to train Venezuelan soldiers in guerrilla tactics for use if the United States were to invade.

In an e-mail dated February 8th, Mr Márquez and a colleague report that Mr Chávez (whom they identify with the pseudonym “Ángel”) had told them that the first $50m was “available”, with another $200m over the course of the year. However, there is no corroboration as to whether any money was actually paid. Colombian officials have long said that the FARC was wealthy through drug money. So why were they so jubilant about the loan? Perhaps because army pressure against the guerrillas has disrupted their drug business. The government has evidence that some FARC fronts are short of cash and have trouble paying farmers for coca paste, says Sergio Jaramillo, the deputy defence minister.

The secretariat's e-mail correspondence sheds light on several other matters. It confirms that Manuel Marulanda, the FARC's veteran leader, is still alive and apparently in overall command. It also shows the FARC's cynicism about the plight of its hostages. Mr Briceño says repeatedly that he does not expect to achieve the hostage-for-prisoners swap while Mr Uribe is in power but that the FARC will keep pushing it to create problems for the president. When Mr Chávez asked for Ms Betancourt's release “we told him that if we did that we would be without cards,” Mr Márquez writes.

The e-mails show the extent to which the army has the FARC on the run: the secretariat members often complain of their difficulties in communicating with each other. Days after Mr Reyes was killed another member of the secretariat, Iván Ríos, was murdered by his own bodyguard. This week Mr Ríos's deputy, Nelly Ávila Moreno (aka “Karina”), surrendered. But the FARC is far from defeated. In an e-mail last August Mr Briceño notes that guerrilla landmines are undermining army morale. Their impact is “very good and we are going to increase them,” he writes.

The e-mails released so far represent only a fraction of the almost 40,000 written documents and 610 gigabytes of data on the computers. For all his bravado, Mr Chávez is clearly discomfited by all this. At a get-together of European and Latin American leaders in Lima on May 16th he was unusually conciliatory. Some Republicans in the United States have seized upon the computer cache as grounds for declaring Venezuela to be a state sponsor of terrorism. This could require the United States to impose trade sanctions on a country from which it buys some 10% of its imported oil—and so is unlikely to happen. And the e-mails are not a smoking gun implicating Mr Chávez unequivocally. It was Mr Márquez and other FARC commanders, not Mr Reyes, who handled relations with Venezuela. So there are no e-mails from Venezuelan officials on his computer.

Even so, the documents should trouble Venezuela's South American neighbours. None of them echoed Mr Chávez's call in January for the FARC to be recognised as legitimate belligerents. The centre-left governments in many countries are wary of Colombia's close alliance with the United States, which supplies it with military aid. But all have signed the Organisation of American States' democratic charter, requiring them to support, not undermine, each other's democracies. Last month José Miguel Insulza, the OAS's secretary-general, said that “no evidence” linked Venezuela to the FARC. But the evidence from the laptops suggests that there is certainly a case to be answered—by something more than a blustering denial.

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Colombia's media

An icon reborn

May 22nd 2008 | BOGOTÁ
From The Economist print edition

The return of a campaigning newspaper

ITS fearless crusade against Pablo Escobar, a notorious drug baron, turned *El Espectador*, a Colombian newspaper, into a journalistic icon but cost it dearly. Its editor was murdered, its offices bombed and its distributors threatened. A recession then forced the battered paper into turning weekly under new owners in 2001. This month, bucking the global decline of newspapers, *El Espectador* relaunched as a daily.

That brings a welcome touch of diversity to the Colombian media, which have a reputation for good journalism but narrow ownership. Those owners have traditionally been prominent political families, but are increasingly corporate. *El Tiempo*, the dominant daily, was sold last year to Grupo Planeta, a Spanish publishing house, by the Santos family, who provide the current government with its vice-president and its defence minister.

El Espectador is now owned by the Santo Domingo family, one of Colombia's wealthiest. But the paper's editors insist that they enjoy independence and will continue the paper's tradition of investigative journalism. “The Santo Domingos don't get involved in editorial decisions,” says Fidel Cano, the editor and a great-grandson of the paper's founder. “We will continue to challenge the powerful.”

That stance is a good marketing strategy in Colombia, says Juan Carlos Gómez, of the Media Observatory at the University of La Sabana in Bogotá. He points to *Semana*, Latin America's hardest-hitting newsweekly, which relies on its investigative cover stories for circulation, and thus for advertising. *El Espectador* is seeking a similar niche, hoping to sell 50,000 copies during the week and three times that on Sundays.

The Santo Domingos also own Caracol, one half of Colombia's cosy television duopoly. The government plans to offer a licence for a third channel. The incumbents grumble that this will dilute a meagre advertising pie of just $370m last year. That hasn't stopped half-a-dozen foreign media groups from expressing interest. Most Colombians get their news from television: both channels often provide the same news items backed by the same images, followed by perky young women with plunging necklines purveying celebrity gossip. A little more diversity and competition can only be good for Colombian democracy.

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Education in Mexico

Testing the teachers

May 22nd 2008 | MEXICO CITY
From The Economist print edition

An attempt to tame the teachers' union

Alamy

Which one's the dunce?

IT IS perhaps the hardest reform of all. Pension systems or energy shortages can be fixed by cutting entitlements or spending more. But no amount of money can in itself make a million qualified teachers materialise in less than a generation. That is the aim of the “Alliance for Educational Quality” launched by Felipe Calderón, Mexico's president, this month. To signal its importance, he gathered together much of his cabinet for the signing ceremony on May 15th. The document his pen hovered over was not a new law, but rather an agreement with Elba Esther Gordillo, head of the national teachers' union.

Ms Gordillo is a powerful political figure in Mexico. Her critics contend that she is more of a politician than an educator, and say that her union has long been an obstacle to improving education. But Mr Calderón is by nature a pragmatic dealmaker, and ignoring the union would only have led to a hopeless stalemate.

The need for good teachers is glaring. Mexico was placed dead last among members of the Organisation for Economic Co-operation and Development, a club of mainly developed countries, in reading, science and mathematics in December by the Programme for International Student Assessment. Look beyond simple place rankings and the picture gets worse. On the reading part of the test, less than 1% of Mexican 15-year olds scored as “capable of sophisticated, critical thinking” (compared with 22% in South Korea, the top scorer). Over half of Mexican 15-year olds were classed as incapable of doing basic arithmetic on the maths portion of the test.

The main problem lies not with salaries for teaching, which are competitive with other jobs in Mexico, but with the quality of teachers. The government has been trying to solve the problem since 1992, when it introduced annual bonuses linked to teachers' participation in training courses and their scores on tests. This system is far from perfect. A study last year by the Rand Corporation, an American think-tank, found that the tests given to teachers required “only low level cognitive responses”, while the criteria for evaluation were fuzzy and subject to manipulation.

The new agreement between Mr Calderón and Ms Gordillo has two aims. First, there is a promise to improve the fabric of the 27,000 schools—around one in eight—that are in poor repair (though no new money was allocated to this as part of the agreement). Second, it seeks to break the hold of the union over teachers' careers. Under the agreement, teachers would be hired and promoted according to how they fare in a set of tests devised and marked by a new independent body.

The reaction of educational experts to the deal has been muted. Many find it hard to believe that the union will concede its power over hiring and firing in a meaningful way. They also note that Ms Gordillo has a knack of co-opting reforms to serve her own ends. Yet Josefina Vásquez Mota, the minister of education, is one of Mr Calderón's more able political operators. If she can make the agreement stick in practice, the quality of Mexican schooling should gradually improve.

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Canada

Prisoners of ambiguity

May 22nd 2008 | OTTAWA
From The Economist print edition

The government no longer helps all Canadians in trouble abroad

UNTIL recently, Canadians who ended up in a foreign jail could be confident of help. The federal government backed any request by a convicted prisoner to be repatriated to a Canadian jail. For those sentenced to death, an appeal for clemency was automatic. While consular officials would not interfere in any reputable prosecution, once sentence was passed, they would help bring Canadians home.

Stephen Harper's Conservative government has changed this. In November Stockwell Day, the minister of public safety, said he would not ask the governor of Montana in the United States to commute a death sentence against Ronald Smith, who killed two Americans during a drunken road trip in 1982. In future, no appeal would be made where Canadians were convicted by due process in a democratic country, he said. Mr Harper says intervening on behalf of double murderers sends the wrong signal to Canadians.

Maybe, but there are also pitfalls in the new approach. Governments receiving official representations—such as Saudi Arabia, where Mr Day appealed for clemency in the case of Mohamed Kohail, sentenced to beheading for killing a teenager in a 2007 schoolyard brawl—will now know that Canada considers their justice system unfair. Some Canadians reckon that their government has become complicit in capital punishment, which the country abolished for civilians in 1976.

More broadly, rather than providing an equal service to all, the government has begun to pick and choose which among the 1,815 Canadians in foreign jails it will help, complains Gar Pardy, a retired civil servant who drew up the previous consular policy. Brenda Martin, whose trial and conviction for fraud in Mexico received much media coverage in Canada, was whisked home on a government-chartered jet within days of being sentenced. Under Canadian rules, she was promptly freed on parole, having served a third of her five-year sentence.

Her treatment contrasts with that of several Canadians facing terrorism charges. Omar Khadr was arrested in Afghanistan in 2002 at the age of 15 and is due to go on trial for murdering an American soldier before a military commission at the prison camp at Guantánamo Bay this summer. The government says that any request to the United States to return Mr Khadr would be premature until his case is completed. Lieutenant-Commander William Kuebler, the American military lawyer assigned to defend him, disagrees. Canada should follow the example of other Western governments and press to repatriate his client, he says. “The guy who is facing the death penalty in Montana was tried and sentenced in a lawful justice system,” he points out. “What's going on in Guantánamo, especially with regard to Omar Khadr, is illegal.”

Canada is not alone in exercising discretion as to which of its citizens in trouble abroad it will aid, says Amanda Cumberland, of Fair Trials International, an NGO. But unless governments explain their policy clearly, they raise suspicions that their actions are determined by media interest, politics or ideology, she adds.

A government pamphlet called “A Guide for Canadians Imprisoned Abroad”, setting out what consular officials will and won't do, does not include any recent changes in policy. Not much use to any Canadian who is unlucky enough to be banged up while abroad.

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The earthquake in Sichuan

China helps itself

May 22nd 2008 | JIANGYOU
From The Economist print edition

The government's relief effort is impressive; even more inspiring is what ordinary people are doing to fill the gaps

Getty Images

SOME 200 survivors of China's deadliest earthquake in more than 30 years line up for a handout of food. It looks good. There is rice gruel, braised diced pork, courgettes and hot steamed buns. There are also no officials. The Communist Party likes to be seen as society's main benefactor, but this is private aid.

The party has mobilised its own forces on a huge scale in response to the disaster on May 12th in the south-western province of Sichuan, which has left more than 74,000 dead or missing, 247,000 injured and 5m homeless. More than 100,000 troops and police have been deployed to help survivors and to rescue people trapped by rubble and landslides. Hopes of finding more are fast dwindling. But the scale of non-governmental involvement has been just as striking.

The food handout in Jiangyou, a small city 115km (70 miles) east of the epicentre, was being carried out by volunteers from an ad hoc group of private catering companies from another province. The recipients were refugees from the nearby town of Beichuan, which was all but flattened by the earthquake. Their appetising hot meal contrasted with the instant noodles and biscuits offered at other food stations.

Even had it wanted to, it would have been difficult for the government to keep relief efforts in the hands of its usual instruments: military and civilian officials, the Communist Youth League and the Chinese Red Cross. The disaster struck at a time of nationalist fervour fuelled by a widespread feeling that China was being unfairly criticised for its handling of unrest in Tibet. Sentiments were further aroused by blanket coverage of the earthquake in the state-controlled media—a departure from the party's usual tongue-tied approach to disasters.

Responding to the mood, the government declared three days of public mourning from May 19th. Disasters do not normally rate such attention—the last day of public mourning was 11 years ago, on the death of Deng Xiaoping. In Beijing thousands of people gathered in Tiananmen Square to observe an official call for three minutes of silence. They also, spontaneously, chanted slogans and punched their fists in the air, shouting “Come on China!” as police looked on warily. In Chengdu, the provincial capital, on May 21st a police car shadowed about 100 unofficial relief workers who marched through the streets after dark, carrying candles and chanting patriotic slogans.

A fast-growing middle class with money to spare on travel and, as it now seems, on charity, did not wait for official encouragement to help out in Sichuan. Thousands of volunteers headed to the disaster zone,

from businessmen to Christian youth. Their cars, some bedecked with flags and slogans, ply the expressway between Chengdu and Jiangyou.

Hundreds of taxis helped ferry the injured to hospitals in the city. At Mianyang, a big city close to Jiangyou, police erected barricades on an approach road to a stadium sheltering some 20,000 refugees, to prevent its being clogged by volunteer vehicles. A government plea for unofficial volunteers to stay away from the disaster zone and concentrate instead on activities such as raising money and donating blood has fallen on deaf ears.

The government seems little inclined to deter the volunteers more rigorously. It knows that public opinion is mostly on its side. The prime minister, Wen Jiabao, appears to have earned considerable kudos by rushing to the scene and staying there for five days to direct relief operations, at one point in tears.

Inside the stadium grounds, which are guarded by militia in camouflage uniforms, stalls set up by volunteer groups offer the refugees services ranging from psychological counselling to the (seemingly more popular) charging of mobile-telephone batteries. An American nurse at one stall helps doctors examine children. In the town of Shifang, south-west of Jiangyou, Buddhist monks say prayers for victims in a temple where the government has settled hundreds of refugees.

The combination of government and volunteer effort appears to have had good results. In refugee camps on the periphery of the disaster zone, tent areas appear clean and orderly, with adequate supplies of food and clean water. There have been no reports of serious outbreaks of disease. Most refugees seem in reasonable spirits. Tents, however, are a problem. Officials say there are still far from enough proper ones. Many refugees are sheltering under makeshift tarpaulin structures. Some Chengdu residents, fearing aftershocks, have taken to sleeping in tents. Demand has pushed up the cost of a small tent fourfold, residents complain, despite government orders to retailers to rein in prices of relief-related materials.

Much of the volunteer effort has involved individuals or small groups. China is still wary of large NGOs and has none that is truly independent of the government specialising in disaster relief. But in recent years the party has begun to acknowledge more openly that there may a role for them. Official press coverage of the earthquake, although careful to highlight the party's contributions, has also paid rare tribute to the unofficial volunteers.

The government has been encouraging firms to give more generously to worthy causes. From this year it has increased tax incentives for corporate donations to charities. But this applies to only a small number of government-approved organisations. For the sake of earthquake relief the authorities are letting down their guard. But the government gives little encouragement to new NGOs and often treats the small existing ones as potential germs of political opposition. The response to this disaster might ease its fears.

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Myanmar after the cyclone

A modest opening

May 22nd 2008 | BANGKOK
From The Economist print edition

Foreign pressure on the junta is only partly successful

Getty Images

And they are the lucky ones

Get article background

THE millions of victims of cyclone Nargis have now endured three weeks of misery while the military regime that runs Myanmar has dragged its feet on letting in international aid. Many inhabitants of the Irrawaddy delta remain homeless and hungry, sheltering wherever they can from the continuing torrential rains. Lord Malloch Brown, a British minister, said after a visit this week to Yangon, the main city, that the regime seemed to be suffering from the “Panglossian” delusion that things were not so bad. Sean Keogh of Merlin, a British medical charity, who has spent nine days in the delta, describes the situation as “desolation absolute”.

International pressure has persuaded the junta to open the country's doors a bit wider. The United Nations' World Food Programme (WFP) is being allowed to bring in ten helicopters to ferry supplies down to the delta. At a meeting of the Association of South-East Asian Nations (ASEAN), Myanmar agreed to let in hundreds of medical and relief workers from neighbouring countries. But it again rejected America's request to be allowed to let its navy ships deliver aid directly to the delta. America, France and Britain all have naval ships loaded with supplies waiting off Myanmar's coast, tantalisingly close to the hungry, homeless people they are not being allowed to help.

Having cleared most foreign aid workers out of the delta since the cyclone, the regime remained reluctant to let them return. ShelterBox, a charity backed by Rotary clubs worldwide, has flown in a big batch of tents, water-purification kits, mosquito nets and other essentials. But its experts were not allowed to accompany them down to the delta: they were obliged to entrust them to local businessmen and volunteers, who promised to send photographic evidence that they had reached those in need. The WFP said the arrival of the helicopters would be a great help in getting food supplies to the delta but, by the middle of this week, the agency had been able to secure only enough rice to give a two-week ration to around 340,000 people, out of 750,000 it reckons urgently need such supplies.

Invisible for a fortnight, the regime's paramount leader, General Than Shwe, appeared in public. Perhaps shamed by the performance of China's prime minister, Wen Jiabao (see article), General Than Shwe toured the cyclone-hit areas and, as China had already done, declared three days of national mourning. The UN's secretary-general, Ban Ki-moon, flew in to the country on May 22nd and was hoping to meet the general (who had so far refused to take his phone calls) the next day. A donors' meeting in Yangon was scheduled for May 25th.

At the ASEAN summit Myanmar's neighbours pledged to lead a “coalition of mercy”, co-ordinating the international effort to help the stricken country. But it is so far unclear what exactly ASEAN countries will be allowed do, other than contribute a fairly small number of aid workers. The regional block is good at phrasemaking but not so good at producing concrete results. And the junta knows from experience that ASEAN will not press it too hard.

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India and Pakistan

Lost momentum

May 22nd 2008 | ISLAMABAD AND MUZAFFARABAD
From The Economist print edition

Talks resume, but get nowhere

WHEN Pranab Mukherjee, India's foreign minister, met Pakistan's leaders this week he may well have been wondering who was in charge. It was the first high-level meeting India has had with Pakistan's new civilian government. The balance of power between it, President Pervez Musharraf and the army he used to head remains murky.

Talks between India and Pakistan stalled last year, when months of political turmoil followed President Musharraf's sacking of the judiciary. Their resumption in Islamabad now, in the fourth round of foreign-ministerial talks since 2004, when the two nuclear-armed neighbours agreed to a “composite dialogue”, achieved little. The talks went ahead despite bomb blasts last week in Jaipur in northern India, which killed 61 people. India refrained from the Pakistan-bashing that usually follows such terrorist attacks.

On the table in Islamabad, in theory, were some bold Pakistani initiatives to resolve the 60-year-old Kashmir dispute. This Pakistani flexibility may soon vanish, if Mr Musharraf, and just as important, Tariq Aziz, his chief aide, soon leave the scene. Elections in February weakened the president and produced a shaky coalition government. Asif Zardari, the co-chairman of the ruling Pakistan People's Party, said that better relations with India should not be held hostage to Kashmir.

India, which could accept the status quo there, has the upper hand. Its government faces elections in the next year, and is in no mood to make any big concessions. Nor was any headway made on issues such as the confrontation on Siachen glacier or the maritime border dispute over the Sir Creek estuary in the Arabian Sea.

The Indian prime minister, Manmohan Singh, may soon visit Pakistan. But for Kashmiris, many of whom want to be shot of both India and Pakistan, all this is too slow. They hoped for an easing of travel restrictions across the ceasefire line. Cumbersome security checks have prevented more than a few thousand passengers using a bus service between Srinagar and Muzaffarabad that started three years ago.

Kashmiri political leaders on both sides see the talks as merely serving the two states' interests. Violence is sharply reduced, but still nearly 800 people were killed last year in a revolt against Indian rule that broke out in 1989 and has killed tens of thousands. India's security forces claim that local support for the militants has dwindled and only some 600 remain active. But in Islamabad India complained that infiltration of fighters from Pakistan has increased in the past two months.

Last week the Indian army said that, despite a 2003 ceasefire, which has mostly been honoured, it had lost a soldier due to shooting across the “line of control” that divides Kashmir. Pakistan-based militant groups are resurfacing. In April Syed Salahuddin, chairman of the militant coalition, the United Jihad Council, held an open meeting in Muzaffarabad. Analysts say the militants are taking advantage of the government's disarray to regroup.

Terrorism investigations in Britain of young British Kashmiris suggest that militant training camps still exist in Pakistani-controlled Kashmir. So what used to be an Indian and Pakistani problem also affects Britain. Tanvir ul-Islam, a retired militant commander, says that peaceful resolution of the conflict would reduce international security risks. He says Pakistan-controlled Kashmir does not want to become a “nursery for mushrooming *jihadis*”.

But Sardar Ejaz Afzal Khan, a leader of Jamaat-I-Islami, an Islamist party, supports the armed struggle, calling talks futile. He echoes the views of separatists in Indian-controlled Kashmir, that Kashmir is not a bilateral issue between India and Pakistan, but one for Kashmiris. President George Bush said this month the time was ripe for a solution on Kashmir. It is hard to find the evidence for that assertion.

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West Bengal

Comrades in arms

May 22nd 2008 | DELHI
From The Economist print edition

Local elections in India's biggest Communist state are as bloody as ever

TO THE rattle of gunfire, the Indian state of West Bengal completed local elections in traditional fashion on May 20th. At least 37 people were killed in the polls, mostly in fighting between the goons of rival political parties, including those within the Left Front coalition that has ruled the state since 1977. Some were mown down while waiting to vote. Others were incinerated in their thatch-roofed houses. Supporters of the main ruling party, the Communist Party of India (Marxist), or CPI(M), were mostly to blame.

The elections, spread over two weeks, will yield 17 district and hundreds of sub-district and village councils, or *panchayats*. The CPI(M) will run most of them. Kshiti Goswami, the state irrigation minister, says the cadres of his Revolutionary Socialist Party (RSP) were armed only with “hand bombs”, whereas the men of CPI(M) had “light machineguns, muskets, revolvers and explosives”.

In addition, the CPI(M), which has brought land reform and other boons to poor Bengalis, is quite popular. That it resorts to violence nonetheless is due to the nature of the party and the polls. After three decades in power in West Bengal, the party has become a vast patronage-dispensing machine, with a cell in every village to allot government jobs and settle disputes. Its control is based on a system of powerful, highly politicised, local governments. With lavish spending powers, their leaders, who, unusually for India, are elected at the lowest level on a party basis, have much to fight over.

This arrangement helps the CPI(M) rally its cadres. It also ensures that the state organs, including the police, are in its grip. But it is not clear that party bosses in Kolkata can control their local strongmen. Before the previous local elections, in 2003, Buddhadeb Bhattacharjee, the state's chief minister, beseeched his party cadres to let opposition candidates register for the poll. This time, the CPI(M) won nearly 6,000 seats uncontested; the main opposition parties won 20.

Another reason why West Bengal's local polls are so bloody is that, unlike in state and national elections, the CPI(M)'s allies contest them separately. And they are currently unhappy with big brother, whom they accuse of ignoring their advice—in particular, over Mr Bhattacharjee's brave, but messy, pro-business policies—and of encroaching on their fiefs. These elections saw unusually serious intra-left fighting.

Once again, Mr Bhattacharjee has been embarrassed by his hooligan party. Meanwhile, its national

leaders, in the politburo in Delhi, have other concerns. The Left Front provides majority-making support to India's Congress-led government, while remaining outside it. The distinction is important. While wanting a say in national policy, the Communists are necessarily antagonistic towards Congress, their main opponent in the states. The result has been interminable bickering between the government and the leftists, bringing the death of several sensible reforms. The government's single main foreign achievement, a nuclear co-operation deal with America, could be a victim too.

The deal would provide India with nuclear fuel and technology, but it is currently blocked by the Communists. On May 28th the government will hold talks with them to try to unblock it. For America, that a bilateral agreement on which it has staked much can be hijacked by unelected Communist bosses, who owe their strength to West Bengal's village gangsters, is, to say the least, frustrating.

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Taiwan's new president

Strait is the gate

May 22nd 2008 | TAIPEI
From The Economist print edition

Ma sets out his stall. China's buying, and, for now, so are Taiwan's people

AP

Ma signals to China

WHEN Taiwan's new president, Ma Ying-jeou, made his inaugural speech on May 20th, he was listened to closely not just by the voters who elected him in March but by the Chinese government. It was a foretaste of the job he has taken on. Central to the task will be to balance the pursuit of better China ties with safeguarding Taiwan's sovereignty.

Mr Ma, 57, a Harvard-educated lawyer, succeeds Chen Shui-bian of the independence-leaning Democratic Progressive Party (DPP). Mr Chen, divested of presidential immunity, now faces a corruption investigation. Mr Ma pleased China by stressing the common heritage shared by people on both sides of the Taiwan Strait. He courted local opinion, too, by praising the island's four centuries of history and its new, vibrant democracy. But he distanced himself from Mr Chen's confrontational policy towards the mainland.

Mr Ma reaffirmed the “1992 consensus” with China, under which both sides agree to accept there is “one China”, but differ over how to define it. In other words, the dispute over sovereignty is set aside in the interests of better relations. So he is committing himself to the maintenance of the present limbo, of Taiwan's de facto but not de jure independence. He urged China to “seize the historic opportunity to achieve peace and co-prosperity”. Two days later a senior Chinese official gushed about the “major positive changes” in relations with Taiwan. Mr Ma's campaign made much of the economic benefits of better relations with China.

Cross-strait talks should resume next month. In early July non-stop charter flights between the mainland and Taiwan are to start, and the first mainland tourists should arrive. But Mr Ma says he also wants to see progress on the space China allows Taiwan in the international arena. He may have a long wait. On the eve of his inauguration, Taiwan was again blocked by China from becoming an observer at the World Health Assembly in Geneva.

China is delighted to see the back of the DPP, preferring to deal with its former nemesis, Mr Ma's governing party, the Kuomintang or KMT. But the KMT is split over its approach to the Communists, which may cripple the government's authority in cross-strait talks. China is a past-master of divide-and-rule strategies.

In the latest high-level contact since Mr Ma's election, the KMT's chairman, Wu Poh-hsiung, is soon to visit Hu Jintao, China's president and Communist Party leader. Mr Ma, however, has tried to stamp his personal authority on cross-strait relations with his choice of chairman for the government's China-policy department, the Mainland Affairs Council. She is Lai Shin-yuan, an independence-minded former legislator. This irked the KMT's pro-China lobby.

In his 20-minute speech, Mr Ma kept using the word “Taiwan” (as opposed to the old name, “the Republic of China”) to show his determination to protect the island. The aim was to map out a cunning path between “one China” and “Taiwan identity”. He will be beset from all sides as he tries to keep to it.

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Vietnam

Shooting the messenger

May 22nd 2008 | BANGKOK
From The Economist print edition

The press fights back as two graft-busting reporters are arrested

THE leaders of Vietnam's Communist Party say they are conducting a “no holds barred” crackdown on corruption in public life. They implore the country's newspapers to sniff out and expose the fiddles of officials. In February the party chief, Nong Duc Manh, praised the press for unmasking graft and thereby fulfilling “the people's desires”. The most notable case was a scandal at the transport ministry in 2006 in which newspapers revealed how officials had gambled around $750,000 of public money on the outcomes of football matches. In the clean-up that followed, the head of a road-building department at the ministry was jailed, along with seven others.

But recent events have cast doubt on the sincerity of the leadership's claim to be fighting corruption at all levels. The main charges against Nguyen Viet Tien, a former deputy transport minister, who was the highest-level official to be arrested over the scandal, have been dropped. More worrying still, the two leading investigative reporters who exposed the scandal have been arrested, along with two former policemen who were among their sources, on vague charges of “abuse of power” and publishing false information.

Vietnam's news media, despite an appearance of diversity, remain tightly controlled: their editors have to be approved by the party and are called in for restrictive “guidance” on what they can report. In recent years they have nonetheless been allowed to publish an increasing amount of criticism of government policy—though it always falls short of questioning the party's “right” to rule. The arrested reporters work for two newspapers, *Thanh Nien* and *Tuoi Tre*, that were especially fearless in exposing official corruption.

In an unprecedented show of defiance, both newspapers are standing by their reporters. *Thanh Nien* has run an editorial demanding: “Free the honest journalists.” It says it has been “swamped” with messages of support from the public and some National Assembly members. It challenges the authorities to explain why, if the offending articles had been so inaccurate, none of the police, prosecutors and the ministry of public security had got around to pointing out the errors at any time in the past two years.

It remains unclear why the authorities have suddenly turned against the graft-busters. Were they getting too close to an even bigger scandal? Are party bosses trying to send a message that those above a certain level in the hierarchy are untouchable? Or could it be a visible symptom of strife between reformers and hardliners in the party hierarchy? “People feel that the journalists are maybe the pawns in some larger game but it's not clear what that might be yet,” says Catherine McKinley, a media analyst in Hanoi.

The Communist Party, like its Chinese counterpart, seems to have won the people's grudging acceptance for having delivered impressively rapid economic development since ditching collectivism over 20 years ago. Now, however, it is battling against roaring inflation and an incipient balance-of-payments crisis. It may need to take unpopular but vital measures; and economic growth may have to be sacrificed temporarily to restore stability. So the party's bosses will need the public's forbearance. One good way to forfeit it is to victimise those who have spearheaded the fight against corruption.

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Indonesia

Not yet a dream; no longer a nightmare

May 22nd 2008 | JAKARTA
From The Economist print edition

A boom in satire marks a decade of sturdy democracy

AMIEN RAIS, a leader of the mass protest movement that brought down the authoritarian Suharto regime ten years ago this week, is being interrogated on a television satire show, “Republik Mimpi” (“Republic of Dreams”) by two impressionists dressed as President Susilo Bambang Yudhoyono and his vice-president, Jusuf Kalla. “Why is your new book called ‘Save Indonesia'?” harrumphs the fictional vice-president, “Don't you think we are already doing everything possible to save it?” The studio audience titters. Moments later, tvOne, the station airing the show, cuts in with an apt but genuine news flash about big demonstrations erupting against the decision by the real-life president and his deputy to slash fuel subsidies, to save the country from financial ruin.

Lampooning those in authority would have been unthinkable in Suharto's time. Even now, the creators of “Republic of Dreams” have struggled to keep their show on the air. It moved to tvOne in February, the second time it has switched channels, after its previous broadcasters found it a bit too hot to handle. Remarkably, its new station is part-owned by the family of Aburizal Bakrie, a government minister and businessman who has often been the butt of the show's humour. Effendi Gazali, the show's creator, says Mr Bakrie will have to endure being sent up on his own station, “or we'll quit!”

Some politicians moaned that the show flouted Indonesian cultural traditions of respect for authority. However, says Mr Gazali, a poll in 2006 found that only about one-fifth of the public—mostly the elderly—bought this self-serving argument. The programme's success has spawned imitators on other channels.

In two rulings, in December 2006 and July 2007, the Constitutional Court struck out clauses in the criminal code that had made it a crime to insult senior figures. Undeterred, officials have dredged up other obscure clauses to have several journalists jailed over critical articles about them. But the chances are that the court will strike these down too, when it hears the journalists' petitions, and that those in power will have to get used to criticism.

The tenth anniversary of Suharto's downfall, just four months after the former president's death, has prompted a debate over how far democracy has progressed in Indonesia—the most populous Muslim-majority state, with 226m people. Besides a free press, the country now has vigorously contested elections at all levels, from president down to village chief. All the main parties, including several that are nominally Islamist, seem committed to pluralism. In its annual report in January, Freedom House, an American think-tank, rated Indonesia the only “free” country in South-East Asia.

Dream on

Although Suharto's authoritarianism is a distant nightmare, Indonesia is not yet a dream republic, hence the ironic title of Mr Effendi's show. Demos, a Jakarta think-tank, this month published a survey of over 900 Indonesian “experts” on the state of democracy in the country. They concluded that it is now as entrenched as it is in India and that the openness and honesty of state institutions is improving. However, despite the recent victories for press freedom, Demos noted a deterioration in other liberties since its last survey, in 2003-04, notably religious freedom.

A topical example of this is the demand by a semi-official group of Muslim clerics to ban Ahmadiyah, a “heretical” sect. Mr Yudhoyono at first intended to go along with this proposal, to appease the small but aggressive Islamist minority. Now, after an outcry by liberals, the president is dithering—his default mode.

As its parliament shows, Indonesia has a secular-minded and fairly liberal majority. But Eva Sundari, an

opposition lawmaker and one of Demos's panel of experts, worries that progressives are failing to find a common voice against a few “very organised and systematic” religious conservatives. These now represent the main menace to Indonesia's development as an open society.

It used to be the army that was the main threat to democracy. In Suharto's day it dominated politics. Not any more. Generals sometimes grumble about modern freedoms, and some may run in next year's elections on a ticket of nostalgia for the strict “order” of pre-1998 days. But Mr Rais reckons the top brass realises democracy is the only option.

There has still been no justice for the many victims of the Suharto era. And, especially in distant bits of the Indonesian archipelago, such as Papua, abuses by the security forces continue. On May 16th a United Nations report noted that torture of suspects remains widespread. The soldiers have lost political clout but are still capable of closing ranks to preserve their impunity. Nevertheless, there is nothing like the systematic, top-down repression of pre-democratic times.

The army has left politics since Suharto's downfall. But his party, Golkar, is still very much around. A common worry on democracy's tenth birthday is that rich politician-businessmen, especially in Golkar (Mr Bakrie and Mr Kalla are two prime examples), can lavish big money on election campaigns to keep themselves in power. Fortunately, this does not always work: in an election in West Java last month, a young candidate from a small, moderate Islamic party beat big guns from Golkar and other main parties.

Indonesia's courts, prosecutors and police are still subject to political meddling. Powerful people get lenient treatment, whereas the ordinary people who annoy them are sometimes punished harshly—a man from Maluku province recently got a life sentence for waving a separatist flag at the president. Much still needs fixing in Indonesian democracy. But at least it seems pretty secure. And in the meantime, the satirists are not short of material.

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South Africa and immigration

Give them a better life

May 22nd 2008 | JOHANNESBURG
From The Economist print edition

Xenophobic violence against black foreigners in Johannesburg's townships has prompted calls for a new government policy on immigration

AP

Get article background

SITTING on a pavement outside the police station in Alexandra, an overcrowded Johannesburg township a stone's throw from the city's main business district, 21-year-old Talent Dube is at a loss for words. She left her native Zimbabwe two years ago, because there was no money to pay for her school fees and no job to help support her parents and younger brother. Last week an armed mob chased her and two relations from the shack they shared. Their attackers took everything they owned: telephones, television, clothes, even their single mattress.

Talent ran for her life with only the clothes on her back. A towel wrapped around her shoulders to fend off the cold, she is now camping at the police station, along with a thousand others, mainly from Zimbabwe, Mozambique and Malawi. Some have been living in South Africa for years. But angry residents, aggrieved by pervasive unemployment, poverty and now soaring food and fuel prices, are accusing them of stealing jobs and houses—and of being criminals.

The ferocious attacks that started in Alexandra on May 11th spread to townships and random settlements around Johannesburg and even reached parts of the city proper. A provincial official reckons about 20,000 people have been displaced. In poor settlements east of the city, foreigners were burnt alive, as some residents watched and laughed. At least 42 people have been killed so far.

The violence has not been aimed at immigrants alone: South Africans from smaller ethnic groups, such as Vendas and Shangaans, have also been targeted. The influx of terrified victims has turned police stations into refugee camps. Some people who had fled poverty or repression at home want to go back. The police have struggled to contain the violence, firing rubber bullets at mobs waving machetes, guns and bars, and have arrested hundreds of suspects. President Thabo Mbeki has called on the army to help.

Businesses and ordinary folk are trying to help victims. Bigwigs from the ruling African National Congress have visited the trouble spots. But the authorities appear at a loss to explain the mayhem. The government has set up a panel to look into what may have sparked it and what to do. Xenophobic incidents are not new but the scale of anti-foreign violence is unprecedented.

Broader questions about how South Africa should handle immigration have been raised. South African mines and farms have long employed workers from Lesotho, Malawi or Zimbabwe. Thousands of refugees from the war in Mozambique arrived in the 1980s. But the flow has swelled since the 1990s, when apartheid ended and South Africa opened up to the world. Thanks to Zimbabwe's chaos, hundreds of thousands, probably several million, have fled the misery and repression north of the Limpopo river. A few people from all over Africa have also been given political asylum.

Since most immigrants are illegal, numbers are hard to nail down. The South African Institute of Race Relations, a think-tank, reckons there are 3m-5m. (The indigenous population was reckoned last year to be 48m, of whom 38m were black, the rest being of white, Indian and mixed-race descent.) Without work permits and trapped in illegality, most immigrants live on the fringe of the economy. Many Zimbabwean teachers or doctors work as gardeners or waiters. Other immigrants have unlicensed corner shops or hawk their wares on the streets: their modest success fuels jealousy. The FinMark Trust, which helps arrange financial services for poor people, reckons that up to 15% of small, mostly unlicensed businesses in Gauteng province are run by foreigners.

According to the Forced Migration Studies Programme at Witwatersrand University in Johannesburg, the government has yet to take immigration seriously enough. Its priority has been to deport the few illegals that get caught. But borders are long, porous and badly policed, so this is futile. It has also led to many human-rights abuses. Foreigners say that the police often harass them and extort bribes.

Calls have grown louder for a new policy to legalise foreigners' status and welcome their badly-needed skills. The education ministry decided last year to hire foreign teachers to plug a severe shortfall in state schools but those already in the country struggle with red tape to qualify. Vincent William of the Southern African Migration Project, a regional initiative, says southern Africa should become a single labour market along the lines of the European Union. “But it's going to take us ten or 20 years to get there,” he says.

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Sudan

The south is on the brink too

May 22nd 2008 | ABYEI
From The Economist print edition

Clashes in the middle threaten the entire north-south peace accord

NOBODY seems to know how or why the fighting in Abyei, on Sudan's north-south fault line, began. But everyone knows that if it gets out of hand, the entire peace accord that has kept an edgy calm between north and south for the past three years could dissolve in a bloodbath.

In mid-May, rumours started to spread that a local militiaman in the pay of the northern government in Khartoum had been arrested by the police run by the main southern movement. A government soldier from the north was shot. Within hours, the town of Abyei was reverberating with the clatter of machinegun fire and the crashing of mortars and rocket-propelled grenades. Tens of thousands of the town's residents fled into the bush. UN helicopters were sent to evacuate terrified aid workers under heavy fire. At least 50 people were killed in several days of fighting.

The mood in Abyei, an oil-rich area straddling Sudan's north-south border, had been darkening for months. The ruling parties of north and south—the National Congress Party (NCP), headquartered in Khartoum, and the Sudan People's Liberation Movement (SPLM), with its nerve-centre in Juba—each claim the area as theirs. There had been sporadic incidents between proxies. But the clashes that erupted on May 14th were the first sustained bout of armed conflict between the northern-based national army and former guerrillas from the south.

Abyei is at the nub of the problems that have strained relations between north and south since the Comprehensive Peace Agreement (CPA)was signed in 2005, ending two decades of war in Africa's largest country. But an argument still festers over sharing oil revenue and demarcating the border between north and south. Trust between the two sides is patently lacking.

A particular row over drawing the border through the Abyei area was a big reason why, last year, the SPLM suspended its participation in various aspects of the peace deal. It complained that the government in the north was refusing to accept the findings of an international boundary commission, which put Abyei in the south. Though the SPLM later rejoined the Sudanese unity government based in Khartoum, it unilaterally sent one of its top men, Edward Lino, to run the Abyei area, which had had no proper

administration for three years. But the northerners rejected him and sent several hundred heavily armed soldiers into Abyei town. “We don't want to fight,” says Mr Lino. “But we're not going to surrender just like that. They can't just come and take over our land and people.”

The mood in Abyei has long been twitchy because of historic animosity between the Misseriya nomads, some of whom are armed by northerners in the government in Khartoum, and the southern Ngok Dinka, who look to the SPLM for protection. Since time immemorial they have clashed over land and water. Such issues can usually be resolved locally but the groups have become pawns in a bigger game. If fighting between them gets bloodier, the north-south partnership in Khartoum could collapse.

The Arabs would hate to lose the south

In any event, the northerners, who are mainly Arabs, have been dragging their feet over the accord of 2005, not just over Abyei, but also over other border disputes. They have been slow to withdraw troops from the south, as agreed. Some observers think they want to provoke a crisis, so that a general election due next year cannot be held. The northerners are even more loth to contemplate a referendum, due in 2011, that is part of the agreement; the southerners are entitled to opt for secession and full independence. If that happened, the south would draw the benefits of Sudan's 500,000 barrels of oil a day, much of it pumped out of Abyei. Hence the tension over the border. The Abyei area alone is said to have produced oil worth $1.8 billion since the accord was signed. The south says it has seen none of the cash at all.

The SPLM's ability to negotiate and implement a border settlement is weakened by its own disunity. Some of its top men believe in a federal Sudan, with the south getting wide autonomy. Others believe passionately that the Muslim-dominated, Arab north will never co-operate with the Christian and animist south, and that independence is the only way.

Such differences are sharpened by fierce rivalries between the southern tribes. The Dinka, among them both the SPLM's leader, Salva Kiir, and his predecessor, the late John Garang, have long held the upper hand. Several of their top people, known as “the Garang boys”, are amenable, as was Mr Garang, to the idea of a federal Sudan with an autonomous south. Mr Kiir leans towards independence. The autonomy-versus-independence debate bubbles on, sometimes angrily.

The SPLM is holding its first party convention since 1994, when it was meant to heal divisions between Mr Garang and a group led by Riek Machar, now the south's vice-president, whose Nuer people are the Dinka's chief rivals. “Most of us want separation [ie, independence] but we are worried about the problems between the tribes,” says Hassan Kuku, a trader in Juba market. “We don't want more war over this.” Moreover, corruption has worsened, making everyone edgier about the future.

Meanwhile, a fear of lawlessness has returned. Though the southern guerrillas are supposed to have disarmed under the agreement, hundreds of civilians in the past week darted into their huts to grab their hidden AK-47s to join the present fray. The accord provided for joint units of northerners and southerners to act as a neutral force; but they never materialised.

The UN Mission in Sudan, known as UNMIS, is feeble. Its diplomats call for calm, but their ability to do good on the ground is impeded by the government in Khartoum, which never wanted the mission there in the first place and limits its ability even to move around freely. The 10,000-strong mission, including some 7,000 soldiers and police, has a weak mandate; its mainly Zambian units did little more than protect a nearby UN base when the hostilities in Abyei broke out.

Since then, some 50,000 civilians have fled into the bush, leaving Abyei town virtually deserted, a stark reminder that some 2m were killed and 4m displaced during the long conflict that ended in 2005. Hectic talks between politicians of north and south are going on in Khartoum.

Yet the continuing horrors of Darfur, in western Sudan, attract more of the world's attention. Many foreign government agencies and charities have switched their focus to Darfur. For the UN, tackling southern Sudan still seems a challenge too far.

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Kuwait's parliament

It just slows things down

May 22nd 2008
From The Economist print edition

An experiment in democracy fails to inspire the neighbours

SINCE Kuwait has the strongest and noisiest parliament among the Arab monarchies of the Gulf, its neighbours watch elections there with special attention. So far, few of their ruling families and friends think the price of democracy is worth paying. The latest poll in Kuwait is unlikely to change their minds.

Kuwait's parliament was set up in 1963, but its powers are still strictly limited. The emir, Sheikh Sabah al-Ahmad al-Sabah, has twice dissolved it in the past two years. The parliament elected this week is still more Islamist than its predecessor, and just as likely to take on the government, so its duration may be equally brief. But dissolving parliament does little to solve the country's problems and less for the image of Kuwait, once seen as an economic and cultural leader in the Gulf but now losing ground to upstarts such Dubai, one of the seven bits of the United Arab Emirates (UAE), and Qatar.

Such countries have not yet bothered to have elected parliaments. Qatar has been talking about one since 2003 but has not yet got round to arranging an election. Under the UAE's version of voting, praised by George Bush earlier this year as “historic”, a few thousand voters, hand-picked by the government, chose half the members of a toothless advisory body.

Moreover, Qatar and Dubai are getting much richer very fast, and are attracting billions in foreign investment, while Kuwait's government and parliament have repeatedly fallen out over how to run the economy, as the country lags behind its neighbours further down the Gulf. So why bother to catch up with democracy?

Kuwait's elections were prompted by a lengthy dispute between members of parliament and ministers over inflation. Parliamentarians said that a government handout to help people deal with the rising cost of living was not enough, while the government fretted that spending more would fuel inflation, already close to 10% a year. Another sore point was Project Kuwait, a government-backed initiative to lure foreign companies into the oil sector, which has been delayed for years by the fierce objections of many elected lawmakers. Such wrangling had left the country without an oil minister since November. Again, quite a few Gulf businessmen say that Kuwait is an example of too much democracy impeding economic progress.

Neighbouring states also looked on warily as ugly tribal and sectarian divisions widened during the campaign. Political parties are banned, so most candidates played on tribal and sectarian loyalties. The number of Salafists in parliament, who follow a fundamentalist Sunni ideology harking back to an era of acclaimed purity, doubled to ten in the 50-seat assembly. They campaigned hard against women candidates, some of whom were threatened, smeared or offered bribes not to stand. None won a seat.

Nonetheless, both male and female Kuwaitis were keener to vote under a new constituency system which is meant to be harder to rig. After a lively campaign, turnout was 68%. The newly elected members, most of them previously in the assembly, are sure to press the government to be more open. One reason they fell out with the last oil minister was his refusal to publish estimates of the oil reserves. Months earlier, an international magazine said it had seen a leaked official document saying that reserves were only half the government's standard boast: that Kuwait has a tenth of the world's. They are also sceptical about privatisation, partly because they fear it will increase corruption.

Another prickly issue is access to land, most of which is owned by the royal family. For years the government had turned a blind eye to Kuwaitis illegally building *diwaniyas*—a kind of salon, which is a cornerstone of Kuwaiti social life—on public land. But in February the government said it would bulldoze them all. Relations between the government and leading tribes, still a big force in the new parliament, have also worsened. Sheikh Sabah, aged 79, will have a hard time controlling it. But dissolving it yet again is unlikely to help him—or Kuwait. If the deadlock resumes, calls for constitutional reform are likely

to mount, with government supporters seeking to make parliament even weaker.

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Lebanon

Peace for a while

May 22nd 2008 | CAIRO
From The Economist print edition

An agreement stops the fighting but has by no means settled things for good

AFTER an eruption of violence earlier this month that left at least 81 people dead, the leaders of Lebanon's factions have pulled back from the brink of what had looked ominously like a reprise of the country's civil war of 1975-90. The deal reached on May 21st, after five days of haggling in the Gulf emirate of Qatar, seems to have ended an epic 18-month squabble that had left Lebanon politically paralysed and without a head of state.

“Today we have no victor, no vanquished, but one winner, which is Lebanon,” declared Marwan Hamadeh, a cabinet minister loyal to the pro-Western majority coalition in parliament known as “March 14th”, which embraces the dominant Sunni and Druze parties as well as liberals and right-wing Christians. Yet most of the gains in Qatar's talks seem to have been won by the opposition, an alliance led by Hizbullah, the Shia party-cum-militia, but also including a powerful Christian party and pro-Syrian leftists. This reflects changed realities on the ground, following the swift but brief takeover on May 9th of loyalist districts in the Lebanese capital, Beirut, by opposition gunmen.

The deal has four main points: parliament must quickly convene to elect as president General Michel Suleiman, chief of staff of Lebanon's army; a national unity cabinet must be formed; agreed new rules for a general election next year must be enforced; and incendiary propaganda must cease. An opposition sit-in in central Beirut must also end, and all sides must forsake armed force.

Agreement on General Suleiman for president was reached long ago, but parliament's Hizbullah-allied speaker, Nabih Berri, had refused to convene the body to elect him unless other opposition demands were met. First of these was granting the opposition an effective veto over policy with a so-called “blocking third” of cabinet seats. That demand reflected feelings among Hizbullah supporters that, after the Shia militia's self-proclaimed “divine victory” over Israel in a 33-day war in the summer of 2006, the pro-Western government could not be trusted to protect Hizbullah's guerrillas from UN Security Council orders that they be disarmed.

The opposition had backed up this demand by withdrawing six Shia ministers from the cabinet in November 2006, so, in its eyes, rendering the government illegitimate for failing to represent all Lebanon's main sects, as required by law.

March 14th had rejected the demand, suspecting the opposition would use a cabinet veto to bring down the government or to block approval of the UN tribunal which is to adjudicate over a series of assassinations, mostly of March 14th people, including a five-times prime minister, Rafik Hariri, that loyalists blame on Syria. Yet in Qatar, March 14th's leaders agreed to the formation of a 30-strong cabinet in which the opposition would get its blocking third of seats, while the new president would name another three.

Passage of a new electoral law was the opposition's other main demand. The rules under which March 14th gained 72 seats in the 128-strong parliament in the 2005 elections, which had followed a spring uprising that forced neighbouring Syria to withdraw its “peacekeeping” troops, were widely recognised as unfair. It was under Syrian tutelage that the law had been fixed, creating broad electoral districts that tended to box Christians, who are allotted half of parliamentary seats, inside majority-Muslim areas.

Everyone seems to agree that the Christians, perhaps 35% of Lebanon's population of 4m, should get half the seats, perhaps because altering this ratio, fixed in the Saudi town of Taif in 1989, after 15 years of war, would stir even worse trouble; before, the ratio was 6:5 in the Christians' favour. But the lingering problem is the Christians' complaint that “their” MPs are elected not by them but by Muslims.

The Qatar deal provides for a return to an older electoral law that divides the country into smaller

districts. After last-minute bargaining, a compromise was reached to split Beirut, whose 19 seats were swept in 2005 by March 14th in a low turnout that reflected Christian ire at having their vote diluted, into three districts. The new rules will make it harder for the ruling coalition to retain a strong majority, and should benefit Hizbullah's Christian allies.

Before heading to Qatar, loyalist politicians had insisted that Hizbullah's weapons should be on the agenda. This was not only because the Shia group had so blatantly, and, for March 14th's Sunni constituency, humiliatingly, betrayed its own commitment never to use its guns in internal politics. It was also because the unique exception granted to Hizbullah to bear arms, under terms reached at the close of the civil war, has helped turn Lebanon into a zone of struggle between far bigger regional powers, such as Iran, Syria, Israel and America. Yet, perhaps because the issue is so sensitive, loyalist politicians let themselves be placated by a vague promise that the issue would be looked into by Lebanon's new president.

So the pro-Western March 14th alliance appears to have beaten a diplomatic retreat that, while helping Hizbullah to consecrate its armed presence, is likely to spare Lebanon more immediate trouble. Yet the real losers may not be the loyalist camp, which could, conceivably, win another election, but rather its foreign sponsors, especially the United States and Saudi Arabia, which had pushed hard for Hizbullah to be cornered. Another loser is the Lebanese people, whose relief is tempered by disgust with their feuding political bosses, as well as despair at losing another chance for real reforms, such as a long-proposed electoral law designed to curtail, rather than reinforce, sectarian rivalry.

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Israel, Syria and the Palestinians

Two-track tango

May 22nd 2008 | JERUSALEM
From The Economist print edition

Peace on the horizon? Or just a mirage?

Reuters

Olmert doubles his talk

TWO pieces of rare good news seemed to emerge from Israel this week: an announcement of peace talks with Syria and of an imminent ceasefire deal with Hamas, the Islamist group that controls the Gaza Strip. But is the hope well-founded?

The long-running Gaza negotiations, with Egypt as a go-between, got stuck at first over Hamas's demand that the ceasefire include the West Bank too, then over Israel's insistence that it include a prisoner exchange to bring back an Israeli soldier, Gilad Shalit, who has been captive in Gaza for nearly two years. Having apparently agreed to discuss those demands later, the two sides were still haggling as *The Economist* went to press over things that will determine how durable the ceasefire is after it takes effect: how much and how soon Israel should reopen its border crossings with Gaza; whether Hamas must stop smuggling weapons and money under Gaza's border with Egypt; whether Israel must scale back its operations against armed Palestinian groups in the West Bank; and whether other such groups in Gaza must stick to the ceasefire too.

Each side would benefit from a period of calm, and neither wants the massive and bloody confrontation that Ehud Olmert, Israel's prime minister, this week hinted was imminent if the daily launch of rockets from Gaza into Israel continued. But the ceasefire will be a zero-sum game. Hamas believes that, given the chance, it can show that it governs better than its rival, Fatah, which is in control of the West Bank. Israel will try to keep enough of a stranglehold on Gaza to prevent Hamas from prospering, while avoiding a full-scale flare-up. The ceasefire will stop as soon as one side realises it is losing out.

The Syrian talks are more intriguing. Both Mr Olmert and Bashar Assad, the Syrian president, have called repeatedly for talks over the past couple of years. Each has stated his conditions: Israel wants Syria to cut ties with Iran's regime and with the militant Hizbullah party in Lebanon; Syria wants Israel to promise to give back every inch of the Golan Heights, which it occupied in the 1967 war.

This week's statement says the two sides will negotiate indirectly, through Turkish mediation, “in accordance with the Madrid Conference terms of reference for peace”, meaning the 1991 meeting of Middle Eastern leaders that laid down the principle of land for peace. Syrian officials followed it up by claiming, as Mr Assad did in a speech last month, that Israel had already agreed to return all of the Golan. Israeli officials deny that. The small gap between what Syria wanted and what Israel offered was the sticking point in the last talks eight years ago, between Israel and Mr Assad's late father, Hafez.

So why are talks starting now? Mr Olmert used to hint that America was blocking them. American officials have toned down their public distaste in recent months, saying that Israel is free to do what it wants. The Bush administration still believes that the Golan is not enough to buy Syria's dissociation from its current Iranian and Lebanese allies.

Naturally, therefore, Mr Olmert's critics in Israel suspect that he is pursuing the Syria track merely to divert attention from how badly talks on a peace deal with the Palestinian president, Fatah's Mahmoud Abbas, have been going, and from some recent corruption scandals. For his part, Mr Assad may hope the talks will dampen anger at home caused by rising food prices and foreign pressure over Syria's meddling in Lebanese politics. This confluence of interests could lead to something real; the question is whether either leader has the determination or the clout to make it so.

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Germany's tax debate

Whether and when to cut

May 22nd 2008 | BERLIN
From The Economist print edition

An argument about tax cuts causes divisions within as well as between parties

Illustration by David Simonds

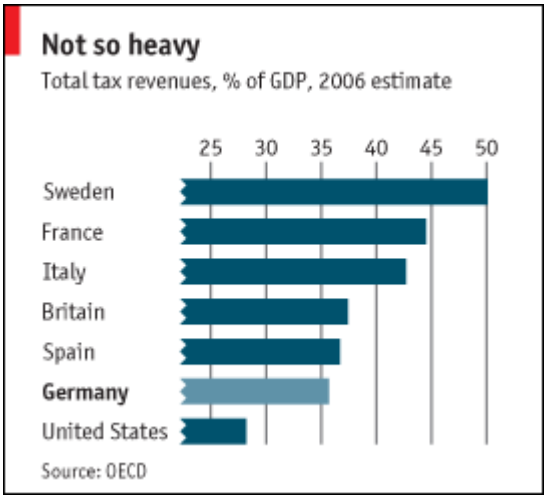
GERMANY'S grand coalition is supposedly a union of the centre-right Christian Democrats (CDU) and their left-leaning foes, the Social Democrats (SPD). Lately, it has been more like an irascible marriage between those who wish to cut taxes fast and those who do not. Most CDU deputies in the Bundestag want tax cuts. The SPD chief, Kurt Beck, even says his party will cook up cuts of its own. But barring the way are the CDU chancellor, Angela Merkel, and the SPD finance minister, Peer Steinbrück. They want to keep a promise to balance the federal budget by 2011. Tax cuts in this parliament? “Not while I'm around,” growls Mr Steinbrück.

The fuss was stirred by the CDU's Bavarian sister party, the Christian Social Union (CSU). Fearful that its five-decade grip on power may be loosened in September's state election, the CSU called for tax breaks that would give low- and middle-income workers “more net from gross pay”, starting next year. The cost: €28 billion ($43 billion) by 2012. Most CDU deputies have since joined their Bavarian colleagues in a plea for rapid tax cuts. And the economy minister, the CSU's Michael Glos, has become the first cabinet member to suggest that the balanced-budget target is not sacrosanct.

The tax-cutting frenzy is stoked both by the political calendar and by the economy's performance. With a federal election due by September 2009 each partner in the grand coalition can do little but think of how to win by a margin wide enough to jettison the other. Their duel will be fought in part over tax. Total tax revenue at all levels of government jumped by 10% in 2007, thanks to a rise in value-added tax and to robust growth. In the first quarter of 2008 the economy grew by 6% at an annualised rate, its fastest in 12 years. That not all have benefited is another reason to argue over taxes. On May 19th the government disclosed that an eighth of Germans were living at or below the poverty line in 2005, early on in the boom. Tax the rich, demanded the left; lighten the burden on ordinary folk, countered the right.

Germans have reason to resent state greed. From 2004 to 2007 the state collected €91 billion in extra taxes, while workers' net incomes rose by just €18 billion, say the main business associations. Germany is not heavily taxed compared with other European countries (see chart), but it takes a bigger bite out of pay than most, a burden borne disproportionately by those on modest salaries. Workers earning only 1.4 times the average pay a top rate of income tax of 42% (there is a special 45%

rate for the very rich). Unlike many countries, Germany does not adjust tax brackets automatically for inflation; the result is “cold progression”, which pushes taxpayers into higher brackets even when real incomes have not risen.



The government has been trying both to cut the budget deficit and to make the tax system friendlier to growth and employment. Last year's VAT increase may have disheartened consumers but it allowed a cut in payroll taxes. The previous coalition government of the SPD and the Greens cut income-tax rates. The current one has reduced taxes on companies instead. Most of its deficit reduction has come from higher revenues, but the government has tried to restrain expenditure: federal spending has risen by around 1.5% a year since 2004.

That has not appeased nervous politicians who see tax relief as the quickest route to electoral relief. Their suggestions are a mix of the sensible and the silly. The CSU would reduce the starting rate for income tax from 15% to 12% and lift the threshold for applying the top rate, countering the effects of cold progression. It would also restore a tax break for commuters, a foolish subsidy to pollution and traffic jams. The SPD leans towards cutting social-security contributions, which would stimulate employment. The party largely backs Mr Steinbrück's goal of eliminating the federal deficit first.

What is missing is any serious attempt to weigh the merits of tax cuts against other pressing aims, such as reducing the debt or spending more on research and education. Some economists read the tax-cut movement as a sign that Germans are questioning whether they need a state that consumes 44% of GDP, but there is little evidence for this. Federal spending is expected to jump this year and next, driven by higher pensions, health benefits and wage rises for civil servants, among other things. Mr Steinbrück is battling budget-busting proposals from the foreign-aid, transport, education and economy ministries. Rainer Kambeck of RWI Essen, an economic-research institute, predicts that federal spending will rise by an average of more than 2% a year from 2009 to 2011, well above the finance ministry's projection of 0.8%.

If all goes well the government might afford a voter-pleasing tax cut before the election and still hit its balanced-budget target. But that is a big if. Growth may slow soon. And nobody knows how far the corporate-tax reform, which takes effect this year, will reduce revenue, says Florian Zinsmeister of DIW, an economic-research institute in Berlin. The government could create room for tax cuts by trimming subsidies, which lavish €24 billion a year on such unworthy causes as coal mining. But that seems unlikely so close to an election. On taxes, the government “should drive with a steady hand” over the next two years, says Mr Zinsmeister.

Ms Merkel and Mr Steinbrück may be right to give priority to deficit reduction: interest payments are the second-largest item of federal spending. If Germans really want lower taxes on top, they should demand lower spending, too.

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Txt msgng in Frnc

Parlez-vous SMS?

May 22nd 2008 | PARIS
From The Economist print edition

A new threat to the French language

THE *baccalauréat* exam season approaches, and with it ritual agonising over the standard of French spelling. These days, fingers are pointed not only at progressive teaching, the decline of the *dictée* or the legacy of May 1968. The new culprit is text-messaging.

“Look at what text-messaging is doing to the French language,” lamented President Nicolas Sarkozy in February. “If we let things go, in a few years we will have trouble understanding each other.” Most secondary-school pupils have their own mobile telephones, and they use an abbreviated phonetic language to communicate. A2M1, for instance, means *à demain*, or “see you tomorrow”. JTM is *je t'aime* (I love you). Or try: Ta HT 1 KDO? (*T'as acheté un cadeau?*, or have you bought a present?).

Text-messaging corrupts all languages. But the French are touchy because theirs is so much an emblem of national identity. It is hard enough to protect French from the invasion of English; now self-destruction threatens. The use of English is tightly restricted in advertising or on the radio, and all English-language slogans must by law be accompanied by a French translation. So Nespresso's ad starring George Clooney, with the catchline “What else?”, has “*Quoi d'autre?*” as a subtitle.

There are no such restrictions on text-messaging, for now. Yet it is creeping into the marketing toolbox. C CHIC, a play both on *C'est chic* (It's chic) and the C series cars, is the name of Citroën's exhibition on the Champs Elysées in Paris. Or take an ad designed to attract 18-29-year-olds by BNP Paribas, a bank, which has the slogan: TA + K ENTRER (*T'as plus qu'entrer*, or you only have to come in). “It is designed to break the idea that the bank is austere and closed for the young,” explains BNP Paribas. “So it's logical to use text-messaging language.”

Some see this as a slippery slope down which “efficiency seems to authorise all imaginable offences against our dear language,” as one educationalist grumbles. Others see it as no more menacing than shorthand for telegrams or typing. Whether schoolchildren can distinguish between useful shorthand in the playground and correct spelling in an exam remains to be seen—or, rather, is a question for 2M1.

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Georgia's election

Misha's test

May 22nd 2008 | TBILISI
From The Economist print edition

Mikheil Saakashvili's party wins, but tensions with Russia persist

IF THE Russians wanted to help Georgia justify its putative NATO membership, strengthen its economy and capture international attention, they have achieved their goal admirably. A parliamentary election in a small Caucasus country of 4.5m people would not usually attract interest. But Russia's sabre-rattling turned the poll on May 21st into a huge international event.

Russia has had a rancorous relationship with Georgia ever since the Soviet Union broke up. In recent years it has imposed a blockade, deported Georgians from Moscow and openly backed the breakaway enclaves of Abkhazia and South Ossetia, handing out Russian passports to their inhabitants. But after Kosovo's declaration of independence in February and the NATO decision in April to hold out the prospect of Georgian membership next year, the Russians chose to up the stakes.

Last month President Vladimir Putin instructed the government he now heads as prime minister to establish official links with Abkhazia and South Ossetia. The Russians then accused the Georgians of preparing to invade Abkhazia, and moved in paratroops and artillery, claiming they were part of a peacekeeping operation. Georgia interpreted Russia's actions as a provocative attempt at annexation.

It would be hard to find a more impulsive leader than Mikheil Saakashvili, but to general surprise the Georgian president has shown restraint. “We felt the best response is to stay calm, to conduct parliamentary elections and promote reforms and show that we are a democracy. We cannot let Russia set our agenda,” he harrumphed on May 21st. Minutes later, the local media broadcast footage of Georgians in Abkhazia coming under fire as they tried to reach a polling station.

Early on May 22nd it emerged that Mr Saakashvili's ruling party had won around 60% of the vote. This election was a test of Georgia's democratic credentials after violent clashes with opposition protesters last November. David Gamkrelidze, leader of the opposition block that took around 15% of the vote, has duly accused the government of bribery and intimidation. But he promised in advance that he would not recognise the result unless his block won a majority of seats. The election was imperfect (some voter lists were missing), but it seemed fairer than the presidential vote that returned Mr Saakashvili to power in January. Tbilisi is calmer, and the appetite for street protests has diminished.

What the election did not do was to create a genuine opposition to Mr Saakashvili. The opposition parties ran a negative campaign aimed entirely at him rather than talking of such matters as an unemployment rate still close to 20%. But the bigger reason for Mr Saakashvili's win is that, after four years of liberal reforms, the results are coming through. A country that once had frequent blackouts now exports electricity. The economy is booming, albeit not to everybody's benefit. To grow faster, Georgia now needs stronger property rights and the rule of law.

But Georgia's future will depend as much on Russia as on its own efforts. And the problem with deciphering Russia's intentions is that it is unclear who is in charge. Mr Saakashvili says slyly that when he has tried to call Dmitry Medvedev, the new Russian president, he has been put through to Mr Putin. He adds that a senior security-service general is shaping Russia's policy towards Georgia.

The Georgians think the only way to defuse the situation is to launch an international peace process—an idea Russia vehemently rejects even before it is formally proposed. In truth the Russians long since stopped being peacekeepers and took sides in the conflict, which is as much about NATO, America and Europe as about Abkhazia. Sergei Lavrov, Russia's foreign minister, told his French counterpart that the decision to avoid military conflict had to be made in Tbilisi and in the countries that want to drag Georgia into NATO. The outcome of this clash will determine not only the future of Georgia, but also what kind of Russia the West will be dealing with in years to come.

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Turkey and the Caucasus

A Caucasian cheese circle

May 22nd 2008 | GYUMRI AND KARS
From The Economist print edition

The secret diplomacy of cheesemaking

ON AN icy February morning a clutch of Turks and Armenians huddled in a hotel in Kars, with Turkish intelligence officials looking on. On May 14th their secret, a giant round of cheese, was unveiled in Gyumri, over the sealed border in Armenia. Under the label of “Caucasian cheese”, the yellow slab symbolises reconciliation between Turkey and Armenia, and across the Caucasus.

The idea of a regional “peace” cheese (Georgia and Azerbaijan are involved too) met suspicion when mooted a year ago, says Alin Ozinian of the Turkish Armenian Business Development Council. “We didn't know how the authorities would react,” said Zeki Aydin, a Turkish cheese producer, who made the ten-hour trip from Kars to Gyumri via Georgia. “We want our borders to be reopened, good neighbourly ties, so we took a chance,” said Ilhan Koculu, a fellow cheesemaker.

Vefa Ferejova, an Azeri campaigning to bury the hatchet with Armenia, was also there, saying “We are told to hate Armenians: I will not.” Armenia and Azerbaijan are at loggerheads over Nagorno-Karabakh, a patch of land that Armenia wrested from Azerbaijan in the early 1990s. This prompted Turkey to seal its border (but not air links) with Armenia in 1993. American-brokered peace talks have failed, and Azerbaijan now threatens to resort to force.

Yet there are hopeful signs that Turkey and Armenia may make up. Turkey's president, Abdullah Gul, was among the first to congratulate Serzh Sarkisian, who became Armenia's president in a tainted election in February. Unofficial talks to establish diplomatic ties could resume at any time. Indeed, there is a whiff of desperation in the air. Turkey's ruling Justice and Development (AK) Party is under threat of closure by the constitutional court for allegedly wanting to bring in *sharia* law. AK's overtures to Armenia may be aimed at garnering some Western support.

Mr Sarkisian's government is heading for trouble when gas prices double this winter. An end to Turkey's blockade could temper popular unrest. But hawks in Turkey and Armenia can still count on Azerbaijan. Allegations that Armenia is sheltering Kurdish rebels have stirred anger in Turkey. Where did they come from? “The Azeri press,” snorts Mr Aydin. Even the best cheese cannot change everybody's attitudes overnight.

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Italy's government

Rome v Roma

May 22nd 2008 | NAPLES
From The Economist print edition

Silvio Berlusconi's new government acts against immigrants to Italy

IT MUST have seemed easy. Silvio Berlusconi won the election partly by promising to crack down on crime and immigration. The two have been conflated in Italian minds not only by incendiary rhetoric and careless reporting, but also by figures showing a disproportionate number of arrests of foreigners, especially illegal immigrants. Mr Berlusconi pledged to throw out wrongdoers and those with no right to be in Italy.

On May 21st the prime minister held his first cabinet meeting in Naples, partly to show its determination to tackle the region's rubbish mountain, but also to launch anti-immigration measures. Yet Mr Berlusconi's hardline policy is bringing him big headaches—diplomatic, legal and, not least, practical.

The government said it would make illegal entry an offence (as it already is in Britain, France and Germany), confiscate property rented to illegal immigrants, restrict the granting of asylum and make it harder for legal immigrants to bring in family members. But these measures are not the whole story. They come against a background of police and vigilante action aimed at foreigners and Roma (gypsies) that drew on the mood of Mr Berlusconi's election campaign. The police have carried out checks for illegal immigrants and also raided Roma settlements. In Naples, an alleged attempted abduction of a child by a young gypsy woman prompted vigilante attacks on camps, one of which was torched after its inhabitants were removed by the authorities for their own safety.

Spain's Socialist deputy prime minister, Maria Teresa Fernández de la Vega, has loudly condemned the Italian government's policies, sparking trans-Mediterranean reproaches that have strained relations between the two countries. A member of the European Parliament of Roma origin, Viktoria Mohacsi, toured gypsy camps in Italy and said conditions were the worst she had seen in Europe. She was echoed by Rome's new right-wing mayor, Gianni Alemanno, after he visited the biggest settlement. On May 20th the European Parliament added its voice by censuring Italy for its treatment of gypsies.

The frenzied debate that surrounded the drafting of the government's new measures has also revealed pitfalls ahead. The criminalisation of illegal entry will allow the authorities not only to lock up migrants arriving off rickety fishing boats, but also to escort to the border those already in Italy found not to have the right papers.

It has been left to the media and human-rights lobbyists to point out that most illegal immigrants are not knife-wielding muggers, but carers of Italy's elderly and cleaners of its homes. According to ADOC, a consumer organisation, there are 1.7m foreign domestic helpers in Italy, most of them irregular. Catholic leaders have praised them for helping to hold families together. Economists note that they let women work in a society where husbands are averse to sharing household chores. Roberto Maroni, the interior minister from the xenophobic Northern League, has vowed to exempt them from the measures, but it remains to be seen how.

The new package also includes two measures that risk bringing Italy into conflict with the European Commission. One provides for the expulsion of EU citizens convicted of offences. The other gives mayors the power to deny residence to EU citizens who cannot show they have adequate earnings and decent housing. Both measures are clearly aimed at Italy's 50,000 Romanian gypsies who are particularly blamed for rising crime.

On May 20th the foreign minister, Franco Frattini, said the government wanted to ensure the effective “expulsion of those who break the law” or act anti-socially. It would do so “in full compliance with European rules”, he added. But the grounds on which one EU country can expel citizens of another are severely limited by a 2004 EU directive on freedom of movement. Mr Frattini should know: he was formerly European commissioner for justice and home affairs. Now he is being criticised by his former

colleagues.

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Corruption in eastern Europe

Talking of virtue, counting the spoons

May 22nd 2008 | BRATISLAVA, BUCHAREST, SOFIA AND WARSAW
From The Economist print edition

Now that they're in the club, new European Union members are failing to deliver on the promises they made to fight corruption

FOR corrupt officials in central and eastern Europe, life has seldom been better. Joining the European Union has produced temptingly large puddles of public money to steal. And the region's anti-corruption outfits are proving toothless, sidelined or simply embattled.

The biggest problems are in Romania and Bulgaria, the EU's two newest members, whose apparent inability (or disinclination) to deal with high-level corruption has led to increasingly acerbic public warnings from Brussels. But other countries have done badly too. “Before accession, governments were under close scrutiny. Now the fight against corruption is not a priority,” comments Drago Kos, president of GRECO, an anti-corruption outfit affiliated to the Council of Europe, a human-rights organisation. “The Europeanisation of political elites was largely taken for granted,” says Alina Mungiu-Pippidi, a Berlin-based Romanian academic.

Even in Slovenia—once seen as a paragon of good government—lawmakers are trying to close down the commission for the prevention of corruption, run by Mr Kos, arguing that it is expensive and unnecessary. The real reasons may be disdain for all public watchdogs (where staff salaries have been cut by a third) and the commission's repeated attacks on the government's anti-corruption credentials. The mooted shutdown has attracted outside protests, including one from the OECD, a Paris-based club of rich countries.

In Latvia, the head of the anti-corruption agency, which had been investigating the financing of the former governing party, narrowly fended off a bid to unseat him. In Slovakia, the justice minister called the special anti-corruption court, which has highly paid, security-vetted judges, a “fascist institution”. His party, a junior member of the ruling coalition, is trying to have it deemed unconstitutional. Another minister wants bribing foreigners to become a legitimate part of public spending.

But the most spectacular cases are still in the Balkans. Barely three months after it joined the EU in 2007, the Romanian government fired Monica Macovei, a doughty justice minister who had attacked corruption head-on. Her successor tried to fire the anti-corruption prosecutor for investigating his political sponsors. The incumbent is a former lawyer for Russia's Gazprom. Procedural snags have held up all high-level corruption cases. Investigation of former ministers now requires parliamentary approval, sending every case back to square one. Although Romania comes out lowest in the EU in the rankings by Transparency International, a lobby group, the government seems determined to attack its critics rather than corruption.

Bulgaria, similarly, prefers talk to action. Multiple new anti-corruption agencies are poorly co-ordinated or have never got going. No case of high-level official corruption has led to a successful conviction, just as not one of more than 120 gangland shootings since 2001 has been cleared up. EU officials (and most Bulgarians) believe that organised crime reaches the highest levels of government. The forced resignation of the interior minister, Rumen Petkov, in April, has made little difference. Brussels is considering cutting billions of euros in aid and withdrawing recognition of Bulgarian court decisions.

Gimmicky special agencies cannot make up for a justice system filled with crooked, timid or inexperienced judges and prosecutors. Indeed, in badly run countries, a powerful anti-corruption agency can aggravate the problem: special powers and privileges can be abused for venal reasons or to settle political scores. This happened in Poland, where the zealous sleaze-hunters of the Law and Justice Party squandered their election win in 2005. Although most Poles seem to believe that wealth is a sign of past lawbreaking, they disliked even more the heavy-handed, selective and publicity-hungry doings of the new anti-corruption agency. The new government downgraded it, and is trying instead to cut back the bureaucracy.

That may be a more promising approach. Corruption crackdowns work only if the public administration is simplified to the point where bribe-taking becomes either unnecessary or highly conspicuous. That has been the secret of success in Estonia, probably the cleanest country in the region. But most east European countries have yet to reform their bureaucracies, creating lots of opportunities for peddlers of lucrative short cuts.

As its economic competitiveness erodes, eastern Europe can ill afford bad government. Voters are generally disillusioned with post-communist politics. Yet from the Baltic to the Balkans, even politicians facing the most startling accusations of corruption seem not to suffer at the polls. A bit like Italy, really.

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Charlemagne

Let them eat cake

May 22nd 2008
From The Economist print edition

European farm ministers are wrong to defend the notorious common agricultural policy

Illustration by David Simonds

MARIE-ANTOINETTE would have been proud of Europe's farm ministers this week, as they debated what to do about the high price of food. True, ministers did not quite sigh "*qu'ils mangent de la brioche*" as they discussed the hungry (as tradition alleges the French queen did when told that the poor of Paris had no bread). But that, in essence, was the message from the French, Germans, Spanish and Austrians, as they leapt to defend the common agricultural policy (CAP), which helps Europe to produce some of the priciest food in the world.

At least Marie-Antoinette had the excuse of a sheltered upbringing. It is harder to explain the conduct of some European Union governments. On the one hand, their leaders claim to be deeply concerned about the impact of food prices on the "vulnerable" at home and abroad (to quote the sonorous conclusions of an EU-Latin America summit on May 16th). Yet in Brussels three days later several farm ministers called for the retention of policies that make food in Europe expensive.

Michel Barnier, the French minister, declared that the food crisis was an excellent reason to "preserve" Europe's capacity to grow food. But not any old food. "I don't believe in industrial farms," explains Mr Barnier, whose country remains by far the largest CAP beneficiary, coining €9 billion ($12 billion) in 2007 (though its share is dropping fast, with the arrival of poorer farmers in the east). He declares that consumers want farms in every corner of the land, no matter how remote, and "a varied diet with lots of local produce, full of colour and taste."

Several governments appear to agree. For example, most farm ministers want to keep a ban on imports of American poultry washed in chlorine, to remove bugs picked up during intensive rearing. (The Americans can do what they want, Mr Barnier sniffed: "Europeans have different standards.") Ministers discussed, but failed to agree on, a move to ban whole classes of pesticides, amid pleas from Britain that this would cut wheat yields by 20-30%. And several countries expressed disquiet about the liberalising elements of a "health check" for the CAP that was proposed this week by the European Commission.

In truth the health check is pretty modest stuff, but it does at least try to increase farmers' freedom to react to market signals. Thus it calls for the scrapping of "set-aside", a policy requiring arable farmers to leave a tenth of their land fallow. It proposes to phase out milk quotas that limit production (though abolition must wait until 2015). It suggests ending remaining subsidies linked to production, in favour of payments for tending the landscape while choosing what to grow. Most of these ideas will get through in some form, albeit watered down (eg, governments will still be allowed to pay farmers to rear sheep and

goats on pretty, if unprofitable, mountaintops).

More ominously, France and its allies have won a clause allowing CAP money to be spent on state-funded insurance for farmers hit by bad weather or disease. Senior officials say France wants to turn this into an American-style income insurance for farmers, in which the public purse pays out when prices dip; Mr Barnier is cryptic, saying that if Americans offer such guarantees, “they must have their reasons”. The Americans are working on their own, ultra-generous farm bill (see article).

Rising prices and incomes should mean that bigger cuts in the CAP (as in the farm bill) are possible when the EU comes to review its budget later this year. But the furious defence of the CAP sends a quite different signal. If, even when farming is profitable, ministers still want subsidies to boost production, it seems fair to guess they do not have cheap production in mind.

In fairness, there is public support in Europe for lots of costly regulations. It may be “perverse”, as one diplomat says, for countries to complain about high prices for pig feed while voting against cheaper, genetically modified grain. But most EU citizens reject GMOs as scary “Frankenfoods”. Europeans like pretty Alpine farms and fret about such things as animal welfare and pesticides. There are free-trading countries on both sides of the current pesticide row: Britain thinks the proposed ban is not backed by science, but Sweden and Denmark disagree.

Who will pay?

Yet there is a big problem. Europeans may demand strict standards, but they will not pay for them. A 2008 study by the Swedish agriculture board found that farmers earned no more than the average European farmer when they deliver cows, pigs and poultry to the slaughterhouse, even though Sweden imposes wildly expensive national rules. The country's supermarkets charge a premium for meat labelled as Swedish, “in the neighbourhood of 10%” says the author, Hakan Loxbo. Farmers are diddled out of most of that by the supermarkets, but even if they got it all, they would still be out of pocket.

Such findings undermine the arguments of those battling to preserve the worst idiocies of the CAP. France and Germany are demanding that foreign competitors must apply EU rules on hygiene, animal welfare and labour laws, or face high import tariffs. Defenders of this “community preference” claim to be working for consumers. But that is unconvincing. If food were genuinely unfit for consumption, it should be banned, not taxed at the point of entry to make it expensive.

This is really a fight about globalisation, says Sweden's farm minister, Eskil Erlandsson. Demanding food safety from foreign rivals is fair enough, he says, as is objecting if they use child labour. But if Europeans want to produce food in a special region or way, “let them label it, and see if the market will pay for it.” If it does not, EU governments should not impose their own high-cost model on the rest of the world. If they insist, they will have created Marie-Antoinette protection: “Let them export cake.” She had her head cut off, to the cheers of the *sans-culottes*. Something for European farm ministers to ponder.

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Housebuilders

Home truths

May 22nd 2008
From The Economist print edition

Alamy

Construction firms suffer as the credit crunch tightens its grip

SOME 150 miles separate Leeds from Britain's financial centre in London. Yet it is at a large construction site overlooking the River Aire near the centre of this industrious northern town that the global credit crisis is casting its darkest shadow. Workers here have just started building western Europe's tallest apartment block, a £225m ($450m) tower of glass filled with shops, offices and more than 600 flats. With its advertised views of the Pennine hills and luxury apartments designed by the iconic Philippe Starck, developers say that buyers are queuing up.

Yet the Lumiere building, which is due to be finished in 2011, may represent a final roll of the dice in a speculative property game from which the players are silently stealing away. March to May is usually the busiest period in the market, as eager purchasers scamper from home to home amid the ripening buds. This spring, however, mortgage approvals (not counting remortgages) may have fallen by almost half as buyers struggle to borrow the money.

The drop in the number of newly built homes sold could prove even more precipitous. Some of Britain's biggest housebuilders say that over the past six weeks reservations—buyers put down a small deposit to reserve the home they want—have fallen by 50% compared with a year ago. Alastair Stewart of Dresdner Kleinwort, an investment bank, puts the slump at 65%. “The market just fell off a cliff,” says Stewart Baseley, the chairman of the Home Builders Federation, a trade group. So have homebuilders' shares (see chart).

Most mortgage seekers have their job cut out for them, but banks have become especially finicky about lending on newly built homes. For this builders have largely themselves to blame. In the go-go years of Britain's long housing boom, many were guilty of two sins, the full repercussions of which have yet to be felt.

The first was that they helped inflate a bubble in high-rise apartments by building flats that were more attractive to investors than to home-buyers. Leeds itself was a hotbed of speculative building. In 2003 the city centre had only 1,800 flats; by 2007 that figure, including flats still being built or planned, had exploded to more than 21,000, according to Rachael Unsworth of Leeds University. The demand came from small investors, she says, not occupiers. Just 25% or so of these properties are standing empty, but many are occupied by students who pay discounted rents.

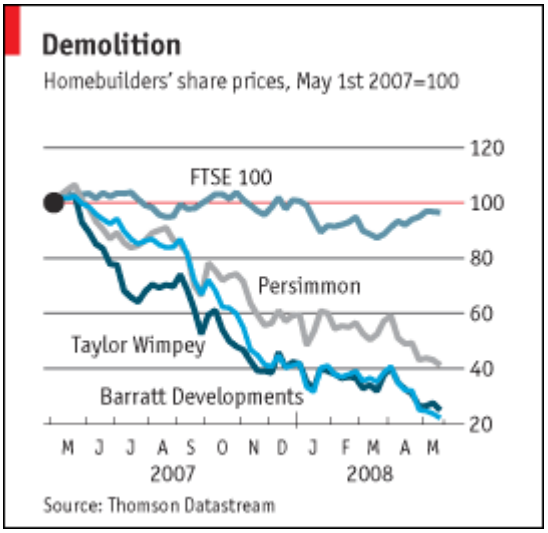
One firm unwittingly gave the game away. A press release advertising the £100m Green Bank apartment block trumpets: “Investors buy at Green Bank without having been to Leeds.” That development was

abruptly cancelled late last year by the developer, even though the firm claimed to have sold hundreds of the 800 apartments off-plan.

The second sin that some developers committed was to mark up the prices of apartments and then secretly discount them, allowing investors to give banks the impression that they had put up deposits. As a result banks now demand downpayments of as much as 40% on newly built flats, freezing many out of the market and deterring first-time buyers in particular.

So many of the largest builders are now stuck with huge inventories, and some are using tactics that would not look out of place in a car dealership. Barratt Developments, Taylor Wimpey and Persimmon are variously offering to buy their customers' current homes, pay their mortgages for six months or more, or let customers purchase just a 75% stake in the new property.

Government meddling is also partly to blame for homebuilders' current woes. Gordon Brown has long championed the cause of "affordable housing" and has tried in recent years to prod the industry into building 240,000 new homes a year, up from the usual 200,000 or so. Although most Britons aspire to own detached houses with gardens, the government thinks it knows better. In 2000 it tweaked the planning laws to steer development away from big, spacious houses on new land towards city-centre flats. A decade ago just 15% of new homes in England were flats; now almost half are.



Yet builders may face a far greater problem than trying to offload the homes they have already built. Many have built up significant land holdings, in some cases the equivalent of ten years-worth of building. In a rising market they could hardly fail to do well, no matter how shoddy their houses or inefficient their management, and net profit margins of 20% or more were not uncommon. But now land values are falling along with house prices (see *The Economist*'s global house-price indicators) and big write-downs may be in the offing. Among companies thought to be most vulnerable is Barratt, burdened with about £1.7 billion in debt. It may have to ask shareholders for more capital.

Big trouble for big builders will not stop there; it will have consequences for the wider economy. Most firms are putting the brakes on new building. Persimmon, which puts up about 15,000 homes a year, says it has completely halted the development of new sites. Taylor Wimpey, meanwhile, is thought to be cutting about 600 jobs. Such a reduction may seem small beer given the 300,000 or so people employed on building sites around the country. But usually phlegmatic observers warn that housebuilding may fall by at least 50% unless house prices and credit markets recover faster than most expect. The prospect of a prolonged downturn bodes ill for an economy—and a government—already on the slide.

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Abortion laws

Hard cases and slippery slopes

May 22nd 2008
From The Economist print edition

Legislators pick their way through reproductive issues

BRITONS, thankfully, have been spared America's abortion wars. Political candidates' positions on the matter are of little interest to the electorate. More Conservatives are “pro-life” and more Labour MPs “pro-choice”, but allegiances are rarely, if ever, based on this single issue. This is partly because Britain is less religious than America, but also because abortion laws are made in Parliament, where shades of grey can be debated, not in the courts, where black or white usually prevails.

Those shades of grey were back in force on May 20th, when, for the first time in 18 years, there was a serious chance that Britain's abortion laws would be made less liberal. Most terminations are carried out on the grounds that continuing a pregnancy could harm the woman's physical or mental health, and such abortions are permitted only before 24 weeks' gestation. (Later abortions are allowed if the woman's life is in danger, or the fetus is abnormal.) MPs debated cutting this limit to 12 weeks, or 16, or 20, or 22. Only the last had a realistic chance of succeeding. In the event 304 MPs voted for the status quo; 233 supported cutting the limit by two weeks.

By precedent, votes on abortion are “free”: MPs may vote according to their consciences rather than a party directive. They still divided along party lines. Most Labour MPs—including the prime minister, Gordon Brown—voted against all the amendments, although three Catholic cabinet ministers supported a cut to 12 weeks. Most of the shadow cabinet voted for some reduction, and the Conservative leader, David Cameron, backed lowering the limit to either 22 or 20 weeks.

There were graphic descriptions of late abortions—Nadine Dorries, a Conservative MP and former nurse, described assisting at one in which the baby breathed for seven minutes. But the debate centred on how premature a baby can be and have a reasonable prospect of surviving. The current law, passed in 1967, permitted abortion only until a fetus was “viable”, which was assumed to be at 28 weeks. That limit was lowered to 24 weeks in 1990, as better care for premature babies meant more survived. Recent studies have suggested little, if any, improvement since then. But campaigners question the relevance of data on premature babies, many of whom are premature precisely because they, or their mothers, are ill. Before the vote, right-leaning newspapers ran stories of children born at 22 or 23 weeks and now doing well.

The abortion debate came at the end of two hotly contested days in the House of Commons. MPs attempting to cut back abortion were hoping to tack their amendments to a bill on assisted reproduction, a field with plenty of controversies of its own. Right before the debate on abortion came one on whether a child's need for a father should continue to be a factor that fertility doctors must consider when deciding whom to treat. The government wants to remove the requirement, as it discriminates against single women and lesbian couples; many Conservatives see the writing-out of fathers as part of a disturbing moral and social decline.

The day before that, MPs had voted on two other amendments. The first would have prohibited experiments involving “chimera” embryos created by placing human DNA inside empty eggs from other mammals. The second sought to rule out creating “saviour siblings”: screening embryos created by IVF in order to select a match for an existing sick child whose life could be saved by cord blood or bone marrow from a suitable brother or sister.

All three issues went the government's way, even though Mr Brown had to allow his party a free vote after a campaign by Catholic bishops made it clear that he risked losing three ministers if he did not. At the time his concession was criticised as caving in to special interests; now that his key measures have survived, it looks canny. A little good news for him at last.

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Coastal erosion

The wisdom of Canute

May 22nd 2008
From The Economist print edition

Letting the waves rule Britannia

THE Jurassic coast, which runs along the southern edges of Devon and Dorset, is a fossil-hunter's paradise. No spades or hammers are needed to persuade the earth to give up its secrets—a combination of rain and pounding from the sea produces regular landslides that scatter fossils on the beaches for passing palaeontologists. But it is less attractive for those who live in the area. Much of the medieval part of Lyme Regis, on the Devon-Dorset border, is thought to lie beneath the waves. On May 6th the town experienced its biggest landslide in over a century, when a 400-metre section of cliff collapsed onto the beach.

PA

Hornsea on the brink

Coastal erosion is a problem around the country. In the worst-affected places, such as Hornsea in Yorkshire, home to Europe's fastest-disappearing coastline, tens of metres of coast can vanish in a single storm. For hundreds of years engineers have struggled to hold back the waters; records show a sea wall at Lyme Regis in the 13th century. Now, a combination of climate change and cost-benefit analysis could mean simply abandoning parts of the country to the encroaching waves.

The policy is known as “managed retreat”—or, for those who find that defeatist, “managed realignment”. It means giving up on hard defences such as sea walls in favour of softer options—leaving some areas entirely, for example, or encouraging saltwater marshes to absorb the force of the waves and protect valuable areas inland.

Like much of Britain's other infrastructure, many flood defences were built by the Victorians. “They were big believers in the power of engineering,” says Mike Walkden of the Tyndall Centre, a climate-change research outfit. The North Sea flood of 1953, which killed 307 people, led to a further building of sea walls and groynes.

But there are two big problems with building walls to keep the sea out. The first is cost. The flood-defence budget, which lumps together money for sea walls, river defences and erosion protection, is due to rise from £650m ($1.3 billion) this year to £800m by 2010. In some places, says Phil Rothwell of the Environment Agency (which manages the defences), the walls cost more to maintain than the value of the land they protect. And with sea levels due to rise in the next century by half a metre in some places, maintenance can only get costlier. The second problem is that preventing crumbling in one place may accelerate it elsewhere, so that sea walls merely relocate erosion instead of preventing it.

Managed-retreat schemes are still in their infancy, says Mr Rothwell, and currently cover only about 600 hectares. They seem popular with policymakers (the government's latest flooding plan is called “Making space for water”). But the idea of letting in the sea rouses strong passions. A leaked report from Natural England, a government-funded conservation body, on flood defences in Norfolk caused outrage. It suggested that up to 25 square miles could be allowed to flood over the next few decades, drowning villages and productive agricultural land. (Officials insist that the paper did not represent policy and that

existing defences will stay.)

Telling people that their homes will be yielded to the sea would be tricky for the most charming politician. But even if the idea proves politically unsellable, says Mr Walkden, it is a useful corrective. “The Victorians thought they could fix the coastline forever. Thanks to that misguided notion, we now have a lot of development behind those sea walls. That's not something we'd want to repeat in the future.”

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Football clubs

We won, so let's make it worse

May 22nd 2008
From The Economist print edition

A tale of globalisation and its malcontents

ENGLISH hearts, you would think, are swelling with pride. In Moscow on May 21st for the first time two English teams faced each other in the final of the Champions League, a football competition that pits 32 of the best teams across Europe against each other. Manchester United prevailed over Chelsea, as the rest of the continent looked on.

This was no one-off fluke but the latest indicator of the growing dominance of England's Premier League, once a poor cousin of Spain's *La Liga*, Italy's *Serie A* and Germany's *Bundesliga*. Each of its big four clubs—Arsenal, Chelsea, Liverpool and Manchester United—has reached at least one Champions League final in the past four years.

Offside

Ronaldo: not English, but great

This primacy owes little to home-grown talent. Twelve of the 22 players who started the game in Moscow were foreign. Roughly half of those fielded in an average Premier League weekend are neither British nor Irish. The most celebrated star (Manchester United's Cristiano Ronaldo) is Portuguese. England's national team failed to qualify for this summer's European championships.

Hosting the world's best without actually besting them is often called “the Wimbledon effect”, after the prestigious tennis tournament that Britain holds each year but is seldom in danger of winning. A better parallel may be with financial services: the City of London thrives on the back of an open market and international talent.

The Premier League's main source of strength is its financial clout. Since the early 1990s, when stadiums were upgraded and lucrative broadcasting deals agreed upon, the league has become a money-spinner. Foreign investors have poured in (Liverpool and Manchester United are owned by Americans, Chelsea by a Russian). England's big four clubs are among the world's ten richest, according to Deloitte, an accounting firm. This allows the clubs to hire the best players, which in turn draws crowds and increases revenues.

In most industries such a virtuous circle would be a cause for celebration. But Sepp Blatter, the president of FIFA, football's governing body, cites English dominance of the Champions League as proof of the need to restrict how many foreigners a team may field. Michel Platini, the head of UEFA, the European wing of FIFA, concurs. Some old-style hoof-it English managers claim that import restrictions would somehow help the coaching of young British talent.

This is the sort of protectionist tosh that most industries have not dared utter in public since the 1970s. How could a sport get better by limiting competition or lowering standards? English children are bad at football mainly because their training is bad (something other places have fixed). The league football in Britain is unimaginably better than it was. With luck EU labour law will stop Mr Blatter and keep it that way.

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Health policy

Unnecessary treatment

May 22nd 2008
From The Economist print edition

Ideas for further reform look largely pointless or damaging

Illustration by Steve O'Brien

GORDON BROWN may have lost the high ground on the economy, but that has made him all the more determined to shore up Labour's position on the National Health Service. Last year he asked Lord Darzi, a surgeon whom he had appointed junior health minister, to set out a ten-year vision for the NHS by June 2008. But even though that deadline is imminent, the prime minister has already jumped the gun on two of the big issues under review.

Lord Darzi was due to set out how patient care could be improved and whether there was a case for giving the NHS a constitution. Previewing next year's legislative programme on May 14th, Mr Brown pre-empted one way to pep up the quality of care. Payments to hospitals will be adjusted to take into account patient satisfaction and whether treatments work. The prime minister also announced that the constitution will go ahead.

Charging hospitals for the quality as well as the number of their operations is a good idea but there is little merit in giving the NHS a constitution. The danger is that it will tie the health service in even more administrative knots. At best, such a document is likely to be long in pious platitudes and little else.

Unfortunately, another ugly idea looks likely to emerge as well from what remains of the review. Lord Darzi is still keen to introduce polyclinics, a halfway house between district hospitals and local GP practices, which he recommended for London last July. That plan envisaged GPs working in polyclinics offering a wider range of care than local surgeries, thus reducing patient trips to hospitals.

If polyclinics did everything they are supposed to do—improving care while also achieving savings—then they would be welcome. Yet serious doubts about them emerged when Lord Darzi's proposals for London were put out to consultation. “The evidence for shifting GP services to polyclinics is currently weak,” said the King's Fund, a health-policy think-tank.

For many patients, medical care will become less accessible since polyclinics will be farther away than GP practices. The argument that the reform will result in savings also looks flimsy. Moving hospitals' outpatient services to polyclinics, for example, would actually raise costs, according to the King's Fund.

Despite such concerns, the NHS in London declared on May 6th that the consultation had shown broad support for the plan, citing the 51% of respondents who had backed the proposal that almost all GP practices should be part of a polyclinic. That less-than-ringing vote of confidence seems particularly hollow as only 5,000 individuals and organisations responded. Almost a third of those filling in the

questionnaire worked for the NHS, and just 3,760 answered the question on polyclinics. The determination of the London NHS to press ahead regardless inspires little confidence in Lord Darzi's recent pledge that local people would have a say in changes arising from his national review.

The case for another shake-up of the NHS is all the weaker given that previous reorganisations and *grands projets* in the health service have gone badly wrong. The National Audit Office, Parliament's spending watchdog, revealed on May 16th that the project to introduce electronic patient records will not reach fruition until 2014—a breathtaking delay of four years.

The inconvenient truth is that Mr Brown already has all the tools he needs to make the NHS work better—thanks to Tony Blair's reforms. There is an internal market, of sorts, which the government can now use to raise the quality of care. Foundation hospitals, which have more freedom to run their affairs, are starting to show their mettle. But because Mr Brown wants to make his own mark, the health service is to undergo a largely pointless makeover, which could at worst do real harm. What a waste of time and energy.

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Regeneration by university

Send in the gowns

May 22nd 2008 | MIDDLESBROUGH
From The Economist print edition

Attracting students to poor regions is easy. But how do you make them stay?

UNKEMPT gardens, loud music, great gusts of cannabis smoke: students are not everyone's ideal neighbours. But most of them eventually blossom into reliable consumers and taxpayers, and so cities fight to attract them. Unexpectedly, it is a fight that places outside the mighty south-east are winning hands-down.

London's ravenous economy has a habit of hoovering up the brightest people from other regions. In 2001 some 32,000 working households relocated to London from 26 of Britain's next-largest cities, according to the census conducted that year. Only 18,000 moved in the other direction. The imbalance was greatest among professionals and managers, who were twice as likely to move into London as out of it.

Students are a different story. Despite a clutch of world-class universities, London is a net loser of undergraduates: in 2001 the number moving away to study was 45% greater than the number coming in.

The success of poor regions in attracting students makes universities an obvious way to lift local economies from the post-industrial torpor that still exists in some parts of the country. In March John Denham, the universities minister, announced plans to open 20 small centres of higher education within six years. Another 17 had already been commissioned since 2003. Promises of regeneration featured large in his speech.

Fingers crossed. But there is a hiccup: a lot of the students who are wooed up north or to the south-west shoot off once they have got their degree. And it seems to be getting worse: in 1997 15.7% of graduates got their first job in London; by 2006 it was 19.2%. For postgraduates, the proportion jumped from 17.2% to 22.4%.

How can cities keep their students? One way is to encourage graduates to develop their own inventions and businesses, and provide a place to help them do it. In Middlesbrough, for example, a joint initiative between Teesside University, the town council and One NorthEast, the regional development agency, offers generous “incubation” facilities to graduate entrepreneurs with ideas for high-tech firms. Each year 60 teams are offered bursaries, cheap office lets and business mentoring, with the help of dollops of European Union cash. There is a risk that graduates will simply take advantage of the offer and then waltz off. But of the 47 sustainable firms that have emerged since 2003, only two have left the region.

Marc Williamson, who co-founded a computer-games developer, Halch, after graduating from Teesside two years ago, says the main reason to stay is the steady supply of graduates available to the company, which employs six full-time staff and as many freelancers, and is currently working on a game for the Nintendo Wii console. In September their incubation period will be up. They have yet to decide if they will stay: the only problem with Middlesbrough, Mr Williamson says, is the three-hour train journey to London, where many games-publishers are based.

Not everyone is so entrepreneurial, especially in a region with a history of large, now shrunken employers such as British Steel and ICI. So an emphasis on vocational courses, developed in tandem with local firms, helps to steer graduates into nearby employment. The university reckons that three-quarters of its full-time students are still in the region a year after graduating (about 63% come from there in the first place, which helps).

There are wrinkles to iron out, of course, and housing is among them. In nearby Sunderland, which also wants to expand its high-tech industries, three-quarters of all homes fall into council-tax bands A and B, the cheapest type. The result is that many high-paying jobs are taken by people who commute from posher Newcastle or Gateshead. And towns also need to be more fun. The north-east has art galleries

coming out of its ears, and its universities perk up the nightlife. But it's not Soho yet. Sunderland opened its only gay bar in January; this month it had to go straight due to lack of interest.

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Army training in schools

Up, lads, and at 'em

May 22nd 2008
From The Economist print edition

The prime minister wants to expand army training in schools

Popperfoto

EVEN in Britain, where traditionalists fume that it is far too hard to kick poorly behaved children out of school, playing with guns is usually grounds for expulsion. But if the government gets its way, then gunplay could soon be encouraged there. A report—commissioned by Gordon Brown and published on May 19th, with his strong support—suggests making military training widely available in state schools.

The report, fronted by Quentin Davies, a former Conservative MP who defected to the Labour Party last year, recommends expanding the Combined Cadet Force (CCF), a youth organisation formed in 1948, when National Service—a euphemism for conscription—was still in existence. Split into Army, Navy and Air Force branches, the CCF teaches teenagers map-reading, marching and how to disassemble and clean a rifle (usually a single-shot version of the SA80 assault rifle used by the army). Formerly widespread, it is now offered at only a couple of hundred particularly traditional private schools, as well as a few dozen state schools.

The CCF proposal is part of a bigger picture. Mr Davies's remit was to investigate ways of improving relations between the armed forces and the public at large, which seem to be deteriorating as the wars in Iraq and Afghanistan drag on. He proposed several other measures, including an “Armed Forces Day” (possibly featuring a new public holiday), a ban on discrimination against troops in uniform and a relaxation of the rules that govern soldiers talking to reporters.

For the prime minister, faced with a resurgent Scottish National Party and worries over the cultural impact of mass immigration, the armed forces offer a useful way to build a sense of patriotic British pride, something he has talked about since before taking office. And social reformers hope that the rigours of CCF discipline will put proto-feral children back on the straight and narrow.

Opposition is likely to come chiefly from teachers' unions; they are already angry about teaching material published by the Ministry of Defence (MoD) which they see as glamorous propaganda. Some teachers suspect that expanding the CCF is merely the latest ploy to militarise their classrooms. Although the MoD, which runs the CCF, denies that it is a recruiting tool, it certainly serves as an ante-chamber to the armed forces: many British soldiers were cadets in their youth.

One organisation that has stayed strangely silent is the British Medical Association, which routinely issues doomful warnings about pudgy British children (already, around a third of English teenagers are overweight, and the proportion is forecast to rise). Regardless of hopes about discipline or worries about

militarism, all that square-bashing should at least help teenagers to lose a bit of flab.

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Bagehot

The politics of numbers

May 22nd 2008
From The Economist print edition

Abortion, counter-terrorism and how to fix the right limits

Illustration by Steve O'Brien

TWO (lost data discs). Ten (pence tax band). Forty-two (days). Twenty-four (weeks). Politics in the age of Gordon Brown seems to have condensed into a strange mathematical sequence, a clutch of apparently unrelated numbers that have chimed troublesomely through his short premiership. Some of these numbers, at least, have something in common besides their role in the calculus of Mr Brown's ratings and authority. They are answers to some of the toughest questions in politics: how much, how many, how long—and why.

Consider the various embryological judgments that confronted MPs on May 19th and 20th (see article). They voted to allow the use of hybrid human-animal embryos in research. They gave statutory backing to the creation of “saviour siblings”. Then—in what, for a comparatively godless country, was an unusually American interlude—they turned to abortion.

This was a different kind of debate, not only because it is intelligible and painfully familiar to large numbers of people. The other issues ultimately presented a clear choice: should a technique be allowed or not? The abortion votes demanded subtler decisions: on whether the limit beyond which women can be granted a termination only in extreme medical circumstances should be cut from 24 weeks' gestation to 22 or fewer. The debate involved balancing different imperatives: women's sovereignty over their bodies and the harm likely to be caused by restricting it; and the moral claims of the unborn fetus.

A similar equation is involved with the number 42—the next digits in the parliamentary limelight, and the next hazard for Mr Brown after the by-election in Crewe (which was taking place on May 22nd as *The Economist* went to press). Mr Brown wants the police to be able to hold suspected terrorists for 42 days before charging them (the current maximum is 28). Here the contest is between the old-fashioned axiom of *habeas corpus* and the need to defend the realm from terrorists. Though wildly different in content, these cases both involve balancing principles and practicality, and then doing one of the most awkward jobs of government: setting a limit, a boundary on the allowable.

Limits are often difficult to defend and frequently open to the charge of arbitrariness. Think, for example, of the oddly incongruent minimum ages set for assorted “adult” activities (smoking, drinking, voting, having sex and so on). Or of the ceiling on tax-free saving. Or the limits on the tax burden a society can bear and on the number of immigrants it can assimilate—both of which the Conservatives claim they have identified.

Not all limits are equally meaningful. Some are vague: “reasonableness” is one limit often set by law; “for personal use” is the limit on the amount of booze Britons can bring home on cross-channel ferries. Some are necessary fictions: there probably has to be a speed limit for motorways, even if almost no one obeys it. But some limits are real, hard and enforced. They define the extent of individual liberty and delineate the intrusive powers of the state. They are the tricky arithmetic of democracy. Setting them is a test; it is not always passed.

The Downing Street sequence

One basic rule for limit-making is that the burden of proof should fall on those who want change—especially since the changers often want to keep on changing indefinitely: cutting the abortion limit by a fortnight was, for some, merely an interim goal on the way to a tighter squeeze or an outright ban. Raising limits can also have unforeseen consequences: boundaries set for exceptional circumstances can quickly become routine instead, as many fear would happen with 42-day detention.

There are different kinds of proof, of course. Sometimes it involves argument more than science. The reduction of the age of consent for gay sex in Britain to match the straight one (16 for both—higher than in some other European countries), like the reduction of the voting age for women to match that for men, came about because enough MPs were persuaded it was right. But sometimes the proof is mostly empirical. The most important consideration in the abortion debate was whether fetuses gestated for 22 or 23 weeks, a tiny number of which are currently aborted, have a better chance of surviving if they are born than they did in 1990, when the existing rule was set. The evidence says they don't—and MPs left the limit alone. They were right.

That is why the government was wrong when, in a temporary switch to alphabetical politics and in the face of expert evidence, it reclassified cannabis as a more dangerous, class-B drug. And it is why Mr Brown is wrong about 42 days.

There would be a case to make, albeit a brave one, for keeping the existing limit on detention even if there were evidence that stretching it would save lives. Fortunately for civil-libertarians, that is not a case they have to make. Despite the unarguable existence of a grave and peculiarly insidious threat to Britain from Islamist terrorists, the government has produced no proof that giving the police the power to bang them up for longer before charging them would make the country safer. Assorted super-experts have inconveniently testified that it wouldn't. Because his case is so flimsy, Mr Brown's motives seem in part to be political: a desire to out-tough the Tories; an Oedipal urge to succeed where Tony Blair, who wanted 90 days, failed. The government's reserve argument—that the higher figure might be needed one day—is a bad reason to set any limit.

In fact, 42 seems to have been picked as a compromise between the status quo and an even bigger increase. Compromise is a doubtful way to fix a limit, though a common one among politicians. When it comes to a vote, however, a majority of MPs seem likely to take the right view of how this particular frontier should be determined, as they did over abortion. If they do, and he loses, Mr Brown may have reached his own limit.

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Spreading the atom

Stopping the wrong sort of chain reaction

May 22nd 2008
From The Economist print edition

Illustration by Claudio Munoz

The spread of civilian nuclear technologies brings the risk of nuclear proliferation—and attempts to stop it may backfire

REDISCOVERING the charm of nuclear power throws up some odd results. America and Saudi Arabia have just signed a deal that may mean that the world's biggest oil-producer imports American-made uranium fuel for (as yet unbuilt) reactors. Japan's prickly relations with Russia did not stop Toshiba agreeing on joint reactor-construction and fuel-production efforts with state-owned Atomenergoprom. Diplomats, engineers and businessmen from Argentina, India, Pakistan, South Korea and elsewhere tout nuclear know-how around the globe. Yet behind the potential profits is a danger: that the spread of the peaceful atom will, as in the past, fuel military rivalry.

Cost, safety concerns and scarce skills mean that many of 200-plus new power reactors now proposed or planned (in addition to more than 400 operating worldwide and almost 30 under construction) may never actually be built. Yet curbing the most proliferation-prone nuclear technologies is already proving tricky. Efforts to persuade countries to forgo uranium enrichment and plutonium reprocessing (usable but not vital in civilian power programmes, but abusable for bomb-making) have sometimes backfired.

Canada, for example, is staunchly against proliferation, yet its government is lobbying hard for a loosening of proposed tighter rules for the 45-nation Nuclear Suppliers Group (NSG), an informal cartel that oversees nuclear trade. Four years ago, President George Bush urged the NSG to bar the sale of uranium and plutonium technologies to any country that at the time did not already possess “full-scale, functioning” plants. Canada doesn't, but has large uranium reserves and wants to keep the option open. So do Argentina, Brazil (which has a pilot enrichment facility) and South Africa, all NSG members. Australia used to, but its new government has gone cooler on the idea. Uranium-rich Namibia, a non-member, hankers after its own enrichment business too.

The spur is fear of getting stuck in Mr Bush's “no enrichment, no reprocessing” camp. Perversely, America's Global Nuclear Energy Partnership, combining co-operation in high-tech (though costly and as yet unproven) technologies among countries that already have “advanced” skills, with assurances of fuel supply for others who agree not to seek them, has stoked fears in some quarters of a new nuclear apartheid. Other ideas being touted—including an international fuel bank under the control of the International Atomic Energy Agency (IAEA), the UN's nuclear guardian, or more commercial ventures that let countries share in profits and fuel products but not enrichment skills—will appeal only to countries not fussed at proving their own nuclear prowess.

Unlike Canada, India never signed the Nuclear Non-Proliferation Treaty; it built the bomb and refuses to accept full safeguards on all its nuclear industry. Under existing NSG guidelines, nuclear trade with it is

banned. America, in the name of friendship, has been trying to write a subcontinental-sized exemption into these rules. That encourages China, for example, which wants to favour its pal Pakistan.

Laxity also makes it harder to persuade Iran, a flagrant repeat violator of its safeguards agreement with the IAEA, to obey UN resolutions and suspend its uranium and plutonium work until there is confidence in its supposedly peaceful intentions. A report this week by the IISS, a London-based think-tank, says fear of Iran's nuclear intentions is fuelling the most dangerous regional nuclear spurt: in the Middle East and the Gulf.

In the 11 months to January 2007, it says, at least 13 states in the region announced plans to pursue or explore nuclear power, citing electricity needs, energy diversification, a desire to export more home-produced hydrocarbons and climate change. Yet a still bigger cause was probably Iran's defiance and suspicions that it has dabbled in the dark arts of bomb-making. Though Arab states have lived tetchily with Israel's nukes for decades, no would-be heavyweight wants to be outstripped by Iran, even if the reigning mullahs never actually build a weapon.

The report highlights transgressions and suspicions in Algeria, Iraq, Libya, Saudi Arabia and Syria, but it also points to a more promising model. Saudi Arabia and the other countries of the Gulf Co-operation Council, while all pursuing nuclear-energy ambitions, have also agreed on a joint and transparent feasibility study. The Saudis have even proposed a joint enrichment facility in a neutral country (perhaps Switzerland). Several have firmly ruled out starting dangerous fuel-making themselves.

It will take tighter safeguards, tougher inspections, new rules to deal with violators and more countries ready to forgo the most sensitive technologies (Iran still says it won't) to prevent new nuclear rivalries growing in such a fissile region. And such safety-enhancing diplomacy won't come—if at all—a moment too soon.

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Economist.com WORLD INTERNATIONAL

Cluster weapons

Blown away

May 22nd 2008
From The Economist print edition

Bemoaning nasty weapons is one thing. Deciding how to ban them is another

AFP

A cluster bomb's Cambodian legacy

IT HAS worked with landmines. Can a conscience-stricken world now pull off the same trick with cluster munitions? These blast an area with bomblets: handy in the heat of war, but often leaving a lethal legacy of unexploded ordnance afterwards. Campaigners say that by far the majority of casualties are civilians.

Now 100-plus countries are meeting in Dublin, hoping to follow up the success of the 1997 Mine Ban Treaty, signed by 155 governments. The aim is to produce a draft treaty by May 30th, for signing in December. “A year and a half ago I never would have thought we'd have been here at this point,” says Bonnie Docherty, a researcher for Human Rights Watch (HRW), which has been campaigning hard for the ban. During fighting in Lebanon in 2006, she says, Israel delivered 4m cluster submunitions. As many as a quarter failed to go off.

The first snag is that countries that mainly make or use cluster weapons (China, Israel, Pakistan and Russia, as well as America) are not part of the Dublin talks. America's diplomat for the issue, Richard Kidd, says UN talks on conventional arms are a better venue. But that process has been in stalemate for six years.

Nonetheless, campaigners think the treaty will reduce and stigmatise the use of cluster munitions. Even states that did not sign the landmine treaty, points out Ms Docherty, have mostly ended up complying with it. Companies that produce cluster munitions risk investors' wrath: in March, at the Irish government's request, the National Pension Reserve Fund sold €23m ($36m) of shares in seven arms companies that produce the weapons.

Such pressure works only in some countries. Turkey and Pakistan signed an agreement this February to produce cluster munitions. Textron, an American arms company, says the three countries that have bought its new “sensor-fused weapons”, and the 17 that may, are unlikely to sign the treaty.

Another snag is defining what a cluster munition is. Most parties agree that the crude weapons designed in the cold war to attack tank columns and troop formations can be banned. But Britain, France, Germany, the Netherlands, Sweden, and Switzerland all want exemptions for sophisticated weapons with low failure rates or small numbers of submunitions.

Smart weapons of the kind produced by Textron, for example, are programmed to hit vehicle targets. If they miss, they are inert: unlike old-style weapons, they won't go off when prodded with a stick. The failure rate in tests is less than 1%. Does that make them acceptable from a humanitarian point of view? Not necessarily. The M85 used by Israel in Lebanon supposedly had a failure rate of 1%; reality on the battlefield proved closer to 10%.

Peter Herby, a top official dealing with the issue at the International Committee of the Red Cross, a Swiss-based do-gooding outfit, says exceptions should be particular not specific, depending on reliability, accuracy and the number of sub-munitions in each weapons system.

The third snag is that 76 countries have stockpiles of cluster munitions. HRW reckons the number of bomblets runs into the billions. Signatories will have to destroy these weapons, not store or sell them. That is a hazardous, messy and costly business, requiring scarce skills. Dealing with Britain's 3,650 BL-

775 cluster munitions may use up to eight years' worth of the £30m ($65m) annual budget for disarmament. Some states want lengthy transition periods too. Places like Laos, whose territory is still littered with munitions from the hot wars in Indochina, will have difficulty meeting the five-year target for clearing up unexploded ordnance, let alone finding money to pay for it.

A final question is whether the treaty will allow countries that have signed it to continue military co-operation with those that haven't. That is a pressing issue for America's NATO allies. Yet the campaigners are optimistic these loose ends will be tied up, or at least fudged. “Most old cold-war-style cluster munitions will be eliminated, but it's a matter of where you draw the lines. Wherever you draw them, I think 90-95% of existing stocks will fall below it. That's really good,” says Mr Herby.

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Rice

Thin gruel and hungry stomachs

May 22nd 2008 | TOKYO
From The Economist print edition

Japan plans a tiny dent in its rice stockpiles

ON THE outskirts of Tokyo sits a huge, grey building with concrete walls nearly one metre thick. The Fukagawa fortress, with its sophisticated security and climate-control systems, houses 50,000 tonnes of rice, part of a 2.3m-tonne stockpile, kept off the market by an oddity of the world rice trade.

When the World Trade Organisation forced Japan to open its rice market in 1995, the government started buying up the imports, mainly from America, to protect domestic farmers. Some is used in processed foods or as animal feed. Some is fed to prisoners. Only a tiny amount goes in food aid abroad.

As the soaring rice price prompts a vicious circle of food shortages and export bans, that looks embarrassingly untenable. But simply selling the rice is not possible: under WTO rules, it may not be re-exported without the permission of the original country.

American and Japanese officials are still haggling; Japan wants to send 200,000 tonnes to the Philippines. That's nice. But it could go a lot further. A new report by the Centre for Global Development, a think-tank in Washington, DC, reckons freeing stockpiled rice in Japan and other Asian countries could halve world prices. Hungry people would certainly like that; American farmers probably would not.

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Correction: Humanitarian intervention

May 22nd 2008
From The Economist print edition

Our article on intervention ("To protect sovereignty, or to protect lives?", May 17th) referred, amnesiacally, to a "treaty of Westphalia". The peace brokered there in 1648 was of course framed in the treaties of Osnabrück and Münster. Sorry.

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Computing

Down on the server farm

May 22nd 2008 | SEATTLE
From The Economist print edition

Data Islandia

The real-world implications of the rise of internet computing

EVEN when the sky is blue over Quincy, clouds hang in the air. The small town in the centre of the state of Washington is home to half a dozen huge warehouses that power the global “computing clouds” run by internet companies such as Yahoo! and Microsoft. The size of several football pitches, these data centres are filled with thousands of powerful computers and storage devices and are hooked up to the internet via fast fibre-optic links.

Yet even more intriguing than the buildings' size is their location. Quincy is literally in the middle of nowhere, three hours' drive from the nearest big city, Seattle. But it turns out to be a perfect location for data centres. As computing becomes a utility, with services that can be consumed from everywhere and on any device, ever more thought is being put into where to put the infrastructure it needs.

Where the cloud touches down is not just the business of the geeks. Data centres are essential to nearly every industry and have become as vital to the functioning of society as power stations are. Lately, centres have been springing up in unexpected places: in old missile bunkers, in former shopping malls—even in Iceland. America alone has more than 7,000 data centres, according to IDC, a market-research firm. And each is housing ever more servers, the powerful computers that crunch and dish up data. In America the number of servers is expected to grow to 15.8m by 2010—three times as many as a decade earlier.

Until a few years ago, the location of servers was an afterthought, says Jonathan Koomey, a consulting professor of environmental engineering at Stanford University. Most sat in cupboards or under desks. The computers in corporate data centres were often housed in the firm's basement. And dedicated “server farms”, which came of age during the dotcom bubble and often housed the machines of internet start-ups, were mostly built in Silicon Valley and other high-tech hubs.

The geography of the cloud

Now this haphazard landscape is becoming more centralised. Companies have been packing ever more machines into data centres, both to increase their computing capacity and to comply with new data-retention rules. As space gets tight and energy costs climb, many firms have begun consolidating and simplifying their computing infrastructure. Hewlett-Packard, the world's biggest computer-maker, for instance, is replacing its 85 data centres across the world with just six in America.

Internet firms, meanwhile, need ever larger amounts of computing power. Google is said to operate a global network of about three dozen data centres with, according to some estimates, more than 1m

servers. To catch up, Microsoft is investing billions of dollars and adding up to 20,000 servers a month.

As servers become more numerous, powerful and densely packed, more energy is needed to keep the data centres at room temperature. Often just as much power is needed for cooling as for computing. The largest data centres now rival aluminium smelters in the energy they consume. Microsoft's $500m new facility near Chicago, for instance, will need three electrical substations with a total capacity of 198 megawatts. As a result, finding a site for a large data centre is now, above all, about securing a cheap and reliable source of power, says Rich Miller of Data Center Knowledge, a website that chronicles the boom in data-centre construction.

The availability of cheap power is mainly why there are so many data centres in Quincy. It is close to the Columbia River, with dams that produce plenty of cheap hydroelectric power. There is water for cooling, fast fibre-optic links, and the remoteness provides security. For similar reasons, Google chose to build a new data centre at The Dalles, a hamlet across the Columbia River in the state of Oregon.

Such sites are in short supply in America, however. And with demand for computing picking up in other parts of the world, the boom in data-centre construction is spreading to unexpected places. Microsoft is looking for a site in Siberia where its data can chill. Iceland has begun to market itself as a prime location for data centres, again for the cool climate, but also because of its abundant geothermal energy. Hitachi Data Systems and Data Islandia, a local company, are planning to build a huge data-storage facility (pictured at top of article). It will be underground, for security and to protect the natural landscape.

So will all data centres end up in remote places like Quincy or Iceland? Not necessarily. For many applications, speed is of the essence. To make sure that its web-search results show up almost instantly, Google has to distribute its data centres around the world. Financial-services firms want to have access to trading data in real time, which explains the high density of data centres near New York and London. And fast-moving online games must be hosted near their players.

Even when speed does not matter, many firms want their servers close by, says Mike Foust, the boss of Digital Realty Trust, which builds and rents out data centres. Sometimes this is for maintenance; sometimes it is because “server huggers” do not want to let go. Security also counts. The Boyd Company, which advises companies about where to put their data centres, thinks more should be built in the provinces. Demand for secure locations for back-up centres, which many firms now have to maintain, will give rise to huge regional data centres, such as the one being built in Newport in Wales.

The criteria that companies use to pick a site keep evolving, says Mike Manos, Microsoft's director of data centres. His team feeds 35 sets of data into an electronic “heat” map of the world. With colours that range from green to red, it shows where conditions are favourable and which places should be avoided. And Microsoft needs a lot of choice: if a new service suddenly becomes popular, it needs to be able to increase computing capacity quickly. That is also why it uses shipping containers pre-loaded with up to 2,000 servers, which can be up and running within hours. In the firm's Chicago data centre, over 200 such containers will populate an entire floor.

Yet it will not just be market economics that determines the shape of the clouds. Local governments give tax breaks in the hope that the presence of big data centres will attract other businesses (the computing plants themselves usually employ only a few dozen people). Regulation is a factor, too. SWIFT, a bank-transfer consortium, has announced plans to build a data centre in neutral Switzerland, so that data collected in Europe will not be stored in an American facility, where it could be subpoenaed by the United States government.

In future the geography of the cloud is likely to get even more complex. “Virtualisation” technology already allows the software running on individual servers to be moved from one data centre to another, mainly for back-up reasons. One day soon, these “virtual machines” may migrate to wherever computing power is cheapest, or energy is greenest. Then computing will have become a true utility—and it will no longer be apt to talk of computing clouds, so much as of a computing atmosphere.

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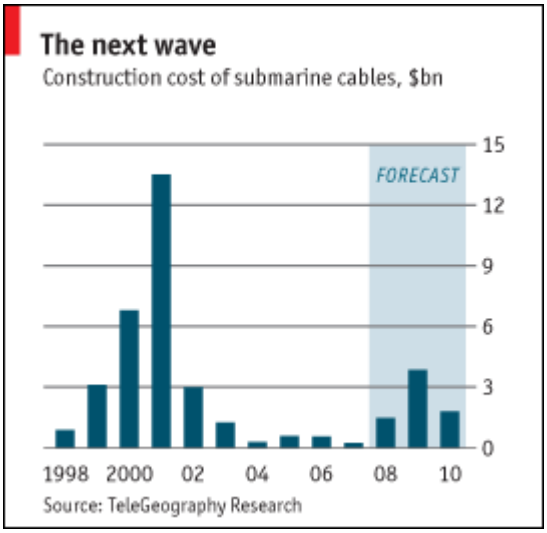
Telecoms infrastructure

Here we go again?

May 22nd 2008
From The Economist print edition

A new boom in cable-laying—but this time it is rational



EVEN as data centres pop up all over the globe to support "cloud computing", another construction boom is taking place below the waves. After years without much investment in undersea fibre-optic cables, dozens of new cables will be constructed over the next three years, at a total cost of about $7.1 billion, according to TeleGeography, a market-research firm (see chart). And this is likely to be an underestimate, since other projects are being planned.

You may be thinking: will they never learn? This new investment boom comes only a few years after a spectacular telecoms crash. In the late 1990s internet gurus convinced financial markets that worldwide data-traffic would double every 100 days; this led them to bet billions building global fibre-optic networks. In 2001 alone, network operators such as Global Crossing spent nearly $13.5 billion laying undersea cables. But when the deluge of traffic failed to materialise, the boom swiftly turned to bust.

Yet the new mini-boom is different, insists Alan Mauldin of TeleGeography, since it is much more rooted in reality. Above all, demand is now indeed growing fast, driven by video and music traffic. Between 2002 and 2007, worldwide demand for international bandwidth grew at an average rate of 52% a year.

A need for more bandwidth, however, is not the only reason to lay new cables; after all, less than a quarter of the fibre-optic strands on the chief undersea routes have been "lit", or switched on. Rather, network operators need back-up connections and alternative routes in case cables get cut, which often happens. In some regions, mainly Asia, prices for bandwidth are relatively high, which attracts investment. And some parts of the world, including Africa and the Middle East, have been underserved by submarine cables, which are now being hooked up.

The structure of the industry is also much saner than it was a few years ago, says Andrew Odlyzko, director of the Digital Technology Center at the University of Minnesota and an expert in infrastructure booms and busts. In contrast to the previous boom, for instance, it is not upstarts such as Global Crossing that are laying most of the cables, but established telecoms giants, for which the new cable-laying projects are only a small part of their overall business.

Yet the industry should not get ahead of itself. Mr Mauldin fears that operators have not learnt all the lessons of the bubble. Although demand for bandwidth is strong, profits remain elusive. Operators need to make big investments, but they face fierce competition, and their customers expect ever-declining prices. At least if the mini-boom turns out to be a mini-bubble, it is unlikely to disrupt the entire industry.

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Corporate governance

A family affair

May 22nd 2008 | NEW YORK
From The Economist print edition

The Rockefeller family confronts the board of Exxon Mobil

THE involvement of the Rockefeller family gives added piquancy to one of the two most significant shareholders-versus-board battles of this year's proxy season. (Carl Icahn's proposal to replace the board of Yahoo! is the other.) Of the 78 adult direct descendants of John D. Rockefeller Jr, 72 have endorsed a resolution to split the jobs of chairman and chief executive at Exxon Mobil, which eventually emerged from the antitrust break-up of the family oil monopoly, Standard Oil. Exxon strongly opposes the resolution and has tried to stem growing enthusiasm for it ahead of its annual meeting on May 28th by writing for a second time to shareholders urging them to vote no.

Last year the resolution won 40% of the vote, up from 34% in 2006. The endorsement of the Rockefellers (who nowadays own only a tiny slice of Exxon, though it is the family's biggest shareholding) is raising hopes of breaking through the 50% ceiling, as does the support of three of the leading firms that advise institutional shareholders on how to vote their proxies. Particularly significant is the support of Proxy Governance Inc, a firm that has previously opposed resolutions to split the jobs of chairman and chief executive. It gave warning that if Exxon continued its “my way or the highway” approach, it risked a “shareholder revolt”.

Even if it attracts over 50%, the resolution is non-binding. Yet it would be a hugely important result, says Robert Monks, a veteran corporate-governance activist who has proposed the resolution in each of the past six years. (Oddly, in two of those years, the Securities and Exchange Commission backed Exxon's decision to throw out the resolution, though the regulator has since realised that such pandering to management is out of step with today's corporate-governance climate.)

Not only is Exxon America's largest public company, with a stockmarket value of over $500 billion, it is also the most consistently hostile to shareholders, says Mr Monks. As he describes in his entertaining new book, “Corpocracy”, its annual meeting is a vigorous exercise in doing the minimum required by the law. Yet this year's vote could be a “turning-point in American corporate governance,” he says, revelling in the prospect of America's most important board “facing a majority, or powerful minority of shareholders saying they want something—and not doing it.”

Exxon says that its board is better placed than shareholders to determine its leadership structure, and that it wants Rex Tillerson to continue as both chairman and chief executive. This is in keeping with general practice among big American public companies. Over 60% of the firms in the S&P 500 have a combined chairman and chief executive. Around 25% have a “lead director” who chairs the compensation and audit committees (but Exxon does not). Only 16% have an independent director as chairman. Contrast that with Britain, where over 95% of public companies now split the two jobs, a shift that is generally agreed to have improved corporate governance and performance.

The involvement of the Rockefellers highlights the nonsensical nature of the complaint often made by opponents of shareholder rights—namely that shareholder resolutions tend to be the politically motivated work of activists and trade unions. They are generous philanthropists, but the Rockefellers are no bleeding hearts. Their support for the resolution is driven by a desire to maximise the long-term value of their Exxon shares.

“Rex Tillerson is a good manager, the board is good, but too often when times are good, shareholders and management don't look hard enough at their vulnerabilities,” says Peter O'Neill, speaking for the family. The Rockefellers worry that Exxon does not spend enough time analysing risks to the business, such as climate change and the need to replace reserves as countries are becoming more nationalistic about their natural resources. “The best way to ensure that all the scenarios are properly tested, to enhance Rex Tillerson's ability to do his job, is to appoint an independent chairman.”

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Yellow pages

Dial I for internet

May 22nd 2008
From The Economist print edition

Phone-book companies are heading for a long, slow decline

WHEN the drains are blocked, the air-conditioning has given up or your life depends on someone delivering a take-away, you pick up the phone book. In most countries the companies that produce them have big chunks of the advertising market and enjoy some of the fattest margins in the media business. But now, because of the internet, investors have taken fright. Shares in Yell, which owns phone books in Britain, America and Spain, fell by 26% on May 20th when it announced its results. That was partly due to concerns about slowing economic growth and the company's debt load, but also because of worries about its long-term future. The firm's shares have now fallen by 75% in the past 13 months.

The problem for yellow-pages businesses in developed markets is that people are increasingly searching for local services online. A survey by the World Advertising Research Center found that in 2005, 57% of Europeans said they would turn first to the printed yellow pages when seeking goods and services. A year later that number had fallen to 51%, and 24% said they would go online, up from 20% in 2005. Small and medium-sized businesses (SMEs), which make up most of the advertisers in yellow pages, are noticing the shift. The fear is that they will follow the audience and jump ship for the internet.

“Ten years ago SMEs had one marketing option: printed yellow pages,” says Paul Zwillenberg of OC&C Strategy Consultants, in London. “Now they can buy space on Yell.com, or they can bypass yellow pages by building their own website and optimising it on Google, or simply buying keywords from Google.” There are signs that larger, more technologically aware SMEs are already doing just that.

Yellow-pages firms are moving onto the internet too, but they face intense competition online, unlike the near-monopolies they enjoy in print. In Britain Yell.com attracts fewer visitors than Google Maps, the search giant's local-search service. Only three big yellow-pages firms, in France, Norway and Sweden, have recreated their dominance on the internet. The biggest of these is PagesJaunes Groupe in France, which beats Google Maps for visitors. It helped that customers were already familiar with Minitel, a precursor to the internet that featured PagesJaunes. In addition, the firm started to invest in its website ten years ago, says its boss, Michel Datchary. Other yellow-pages companies, he says, have tried to protect their print products at the expense of online growth.

Another difficulty in moving online is that directories dare not allow reviews or recommendations, because they earn money from advertising. But “people now want more than a book full of advertisers—they want word of mouth and a sense of community”, says Douglas McCabe of Enders Analysis, a research firm.

Yellow-pages firms have two great strengths which mean that their decline is likely to be gradual. First, the information they offer is still far more extensive and reliable than most of what can be found on the internet. Google acknowledges this, and pays directories firms around the world to use their data. Second, small firms are loyal to phone books, because they get results. In Spain, where Yell owns Páginas Amarillas, eight out of every ten searches in the phone book resulted in a call to a small business. Pirate's Cave Chandlery, a boat-supplies firm in England which employs six people, launched its own website four weeks ago, but plans to stay with the Yellow Pages for the time being. “Lots of people don't have computers,” explains Debra Hardy, the accounts manager, “and we don't want to miss them.”

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Leica

Reflex action

May 22nd 2008 | SOLMS
From The Economist print edition

Trouble at the famous camera-maker

HOW much damage can a famous brand take and still bounce back? Porsche, a maker of sports cars, was on the ropes in the early 1990s but is now one of Europe's most profitable companies. Leica Camera, another prime example of German engineering, is hoping some of the Porsche magic will rub off as it struggles to recover from a difficult year. In February its chief executive was fired after an alarming plunge in sales in the last three months of 2007, despite efforts to turn things around.

Andreas Kaufmann, whose family firm ACM Projektentwicklung owns 96.5% of Leica, hopes that appointing himself chief executive (he was previously the chairman) will make a difference. His predecessor, Steven Lee, an American who had taken over in September 2006, says he is suing for unfair dismissal.

Leica was in trouble even before these changes at the top. Most famous for its small and nearly silent M-series rangefinder cameras, the preferred tool of Henri Cartier-Bresson and many other 20th-century photographers, the company was far too slow to embrace digital technology, and almost collapsed in 2005 after a series of restructurings. Although Leica has sold compact digital cameras since 1998, fanatics really wanted a digital M-series camera. Known as the M8, it was finally launched in 2006, at a price of $5,000, but suffered teething problems that dented Leica's reputation for quality. Sales slumped after a price-rise ordered by Mr Lee.

Now the company is under enormous pressure to produce a digital version of its other high-end product line, the R-series single-lens-reflex (SLR) camera, in time for Photokina, the photography industry's big trade fair, which opens in Cologne on September 23rd. Beyond that, it faces the broader problem of trying to capture a wider market. A digital R would help, but the most growth potential lies in its joint venture with Panasonic of Japan to make co-branded “point and shoot” cameras. Leica also temporarily neglected its valuable niche making high-grade binoculars.

Mr Kaufmann and Mr Lee, both passionate collectors of Leica cameras, started in lock-step but ultimately differed on how the company should face the future. Mr Lee met resistance from managers and technicians over which products to favour and how they should be made and sold. His plan, he says, was to move to customised “build to order” production and to increase the share of new cameras sold by dealers. In many cases, 90% of their trade is in second-hand Leicas. But some people felt that he was pushing Leica's suppliers and dealers too hard.

The crunch came when three employees were dismissed—wrongfully, according to the labour courts—and a dozen or so highly qualified technicians threatened to leave in sympathy. For a firm with only 451 employees at its headquarters at Solms, near Frankfurt, another 477 in Portugal, and 190 elsewhere, that was unsettling.

Now Mr Kaufmann is running things, with help from an unusual but telling source. Porsche Consulting, an offshoot of the carmaker, is advising Leica on its production. Can the camera-maker accomplish a similar turnaround?

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Asian media

Final curtain

May 22nd 2008 | HONG KONG
From The Economist print edition

A long-running television drama finally seems to be drawing to a close

Getty Images

The credits roll

THERE have been rumours before, but this time it appears that the godfather of all ageing media moguls, 100-year-old Sir Run Run Shaw, may finally be parting with the last piece of his Asian media empire. The lethargic shares of his firm, Television Broadcasts Limited (TVB), have suddenly shot up; local papers talk of an imminent sale; and a rare research report on the company has been issued by Goldman Sachs, saying it would be perfect fit for a private-equity investor—a group that, collectively, is desperate for assets that could benefit from the region's growth.

In recent years Sir Run Run has kept a low profile and has attracted attention mainly for his philanthropy: large donations for victims of the recent earthquake in China, $1m awards for the annual Shaw Prizes honouring scientists, and huge sums endowing schools and hospitals.

In his heyday, however, from the late 1950s to the early 1980s, Sir Run Run turned one of his companies, Shaw Brothers, into the world's most productive film studio. In its vast Movie Town, in Hong Kong's then sparsely settled New Territories, stars and stage hands alike lived in dormitories, ate at a central canteen and made movies day and night. Many of the films that came out of this brutally efficient celluloid assembly line—particularly those involving kung-fu, sword fighting and triads—gained cult status around the world. They were distributed through hundreds of company-owned cinemas that Sir Run Run's family set up throughout Asia.

TVB began in 1967, when it received a rare broadcasting licence from Hong Kong's colonial government. Sir Run Run won control of it during the 1970s. As television grew in popularity, TVB emerged as an enduring money-making machine: last year it earned HK$1.3 billion ($167m) on revenues of HK$4.3 billion. TVB's dramas, with titles like “Heart of Greed”, are exported to Taiwan, Singapore, Malaysia and Indonesia, and the annual Miss Hong Kong contest is a huge event. As the television business grew, the film operation gradually faded, ceasing production in 1985 and selling its vast library of films to a Malaysian firm in 1999.

Throughout the 1990s there were rumours that the rest of the business would be sold as well. News Corp and Time Warner each expressed interest, along with other potential buyers. Sir Run Run is said to have asked for too high a price, but politics may also have got in the way. For years, says an executive at another media firm, Sir Run Run's companies across Asia have had to deal with political efforts to block the distribution of its films and television programmes in favour of locally produced content.

Spanning Taiwan and mainland China has been particularly difficult. The recently departed administration in Taipei wanted TVB to sell out. Mainland China has presented problems of its own. It has taken years for TVB to negotiate licensing agreements so that it can be paid for its programming, which in the past has been routinely stolen by pirate cable operators. Sir Run Run's long tenure and ubiquitous philanthropy may still play a critical role in allowing the company to operate across borders, so that even at his advanced age, he is an extraordinarily valuable asset. One banker says that explicitly or not, any sale will have to be endorsed by the Chinese government, which is deeply concerned about who owns television rights both on the mainland and in Hong Kong.

Still, every show must end eventually. Sir Run Run is now rarely seen in public, though when he is, he is usually accompanied by an entourage of beautiful women, including a Miss Hong Kong. Although TVB's profits are good, growth has been slow. The firm faces competition from new cable, satellite and internet

operators, and from shifting fashions: soap operas from South Korea are all the rage in Asia at the moment. Sir Run Run's second wife, Mona, a 73-year-old former actress whom he married in Las Vegas, plays a large role running the company, but she too may be mulling retirement. It has been a good run.

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Companies as activists

Strange bedfellows

May 22nd 2008
From The Economist print edition

Illustration by Satoshi Kambayashi

Activists and companies can move from confrontation to co-operation

LAST month Tom Katzenmeyer, vice-president of investor relations at Limited Brands, met representatives of the government of the Canadian province of Alberta. Limited Brands is an American apparel firm with sales of $10.1 billion last year; its best-known division is Victoria's Secret, which sells lingerie. And what was the topic of discussion? The firm's worries over threatened caribou habitats.

This may not seem to have much to do with Mr Katzenmeyer's job, but Limited Brands is one of several firms giving a new twist to the idea of corporate social responsibility by putting money and effort into causes previously championed by activist groups. Sometimes they are even working with campaigners whom they had once fought to a standstill.

In April Kingfisher (the owner of B&Q and other home-improvement brands) and IKEA, the world's largest furniture-maker, joined forces with Rainforest Alliance and WWF to promote forest certification in China by the Forest Stewardship Council, which certifies wood products according to its environmental standards. Soon afterwards Marriott International, a hotel operator, teamed up with Conservation International and the Brazilian state of Amazonas to protect a big area of Amazon rainforest. This will enable Marriott's guests to offset the greenhouse-gas emissions associated with their hotel stays. Last year big companies including General Motors, Rio Tinto and ConocoPhillips got together with environmental groups, including Environmental Defense and the World Resources Institute, to form the US Climate Action Partnership, which called upon the American government to order reductions in greenhouse-gas emissions.

For its part, Limited Brands had been on the receiving end of a campaign in 2004 by ForestEthics, an advocacy group, which called on it to print its 400m catalogues a year on paper from more sustainable sources. The campaign included demonstrations against Victoria's Secret and ads featuring chainsaw-wielding, lingerie-clad models. Mr Katzenmeyer, who says the campaign was “sophisticated and very well done”, agreed to speak to the group, and quickly realised that it knew what it was talking about. The company enlisted ForestEthics to draw up guidelines for sourcing paper, and the two have continued to work together.

Wal-Mart, the world's biggest retailer, set up an ambitious programme in 2005 with the long-term aim of becoming a zero-waste, renewably powered enterprise. Much of the groundwork was done with help from environmentalists, including Adam Werbach, a former president of the Sierra Club. At the start of this year the firm, which says it sold 137m compact fluorescent lightbulbs in 2007, said it would take further steps to help consumers go green. The store has also begun to ask the same of suppliers. “Wal-Mart

moves markets and Wal-Mart makes markets," says Aron Cramer, the head of Business for Social Responsibility, a consultancy.

Still, consumers could be forgiven for taking these projects with a grain of salt. A survey by Greener World Media, a consultancy, found that although companies made plenty of announcements in 2007, real environmental progress was hard to spot. But firms are keen to form partnerships with environmental groups precisely to avoid being accused of "greenwashing". Besides providing expertise, activists can lend credibility to a company's environmental programmes. Whether activists are "selling out" when they deal with big firms is the subject of much debate. Mr Werbach was at first roundly criticised for working with Wal-Mart, and in March the Sierra Club's endorsement of a "green" range from Clorox, a maker of cleaning products, raised the ire of many of its members.

Yet alliances between companies and activists are not as strange as they might seem. For bosses planning long-term capital investments, says Michael Lenox, an expert on corporate sustainability at Duke University, "uncertainty is more damaging than regulation." This puts bosses in the same boat as activists: both want regulators to hurry up and set the rules. "We can't solve these big global challenges without business engagement," says Mr Cramer, "and business can't operate without solving these problems. So there is philosophical alignment."

Even so, there is a limit to how much voluntary action can achieve, says James Speth, dean of Yale's School of Forestry and Environmental Studies. In a new book, "The Bridge at the Edge of the World", he argues that environmental externalities are an unavoidable feature of capitalism, and that bosses are trapped in a system that requires them to act unsustainably when they have the chance. "In the end," he says, "a responsible company is one that is required to be responsible by law." But until regulators act, companies may find that teaming up with activists is the best hedge against uncertainty.

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Face value

Stepping on the gas

May 22nd 2008
From The Economist print edition

AFP

What happened when Wolfgang Reitzle swapped cars for chemistry

THE car industry has always been famous for leaders with big egos and strong personalities. From Henry Ford II and Fiat's Giovanni Agnelli to Chrysler's Lee Iacocca and Bob Lutz, still blowing smoke rings as number two at General Motors, they bestrode the industry in the second half of the 20th century.

Wolfgang Reitzle is in that mould. With his slim pencil moustache, slicked-back hair and dapper style, he looked like a rather caddish character out of a 1960s British movie as he rose through the ranks at BMW and then moved on to run Jaguar and Land Rover. At lavish product-launches in exotic places, he was the front-man on the stage and the centre of attention at the after-party, champagne glass in hand and blonde on his arm.

Yet Mr Reitzle was the European motor industry's nearly man, never getting the top job he felt he deserved. He was number two to Bernd Pischetsreider at BMW when it announced the purchase of the ailing Rover group from British Aerospace back in 1994. The bearded Mr Pischetsreider beamed benevolently from the platform, displaying his rampant Anglophilia as he reeled off the brand names redolent of a famous motor heritage: Austin, Morris, Wolseley and Riley. But at the back of the hall Mr Reitzle was briefing journalists that this deal was all really about getting hold of the Land Rover brand. Rover and Land Rover were, however, to prove his automotive nemesis.

Mr Reitzle was largely to blame for BMW's mismanagement of what became known in the German press as “the English patient”. A combination of neglect and arrogance was his undoing. Afraid of being overbearing, the Germans left the British management largely to its own devices. But as things went from bad to worse, people like Mr Reitzle blundered in and sapped morale, as was famously caught on camera in a TV documentary, when the suave German dismissed the humble fare served up by an eager canteen lady. After Mr Pischetsreider took the rap for the Rover debacle, workers' representatives on the BMW board blocked Mr Reitzle's succession.

Ford then hired Mr Reitzle to run its posh brands, and he installed himself in swanky London offices in Berkeley Square. “It is important to be in this part of town, which is the heart of the luxury-brand business,” he said then, in the late-1990s heyday of “Cool Britannia”. Mr Reitzle had always worked at the flashy end of the motor trade—whether at BMW, as he helped it rise to lead the premium-sporty market, or at Ford's Premier Automotive Group, where he attempted to turn round Jaguar, Land Rover, Volvo and Aston Martin. But he failed to sort out Jaguar's weak product range or Land Rover's lousy factories.

Ford wanted him to move to Detroit to become head of product development, but Mr Reitzle was getting fed up reporting to anyone but a board. So in 2003, he jumped from an in-your-face consumer business

to the obscure world of industrial gases, a purely business-to-business activity. “Gases are not sexy,” he laughs. “I've gone from one of the most visible products to one you cannot even see.”

But swapping gas-guzzlers for gases has transformed his career. Now at last he is the chief executive, with a string of successes to his name, rather than a runner-up. He has taken Germany's Linde Group from a famous but fuzzy conglomerate into a first-class company with one bold takeover—of BOC, a British gases group—and a string of disposals including, symbolically, the refrigeration business originally founded by Carl von Linde, who invented refrigeration in 1876.

Mr Reitzle managed to pull all this off in the autumn of 2006, just as the storm clouds of the credit crunch were forming on the horizon. And he has accomplished much amid the companies' integration: sales were up 14% last year, operating profit up 18% and debt fell by about one-third from its peak of almost €10 billion ($13 billion) at the end of 2006, after the BOC purchase. Net debt is down from nearly five times pre-tax profits to less than three. Mr Reitzle's mistakes in the automotive business have served him well. He admits that he has applied the lessons he learnt from them to the BOC takeover. He says he came to appreciate “the fuzzy bits”—the non-measurable aspects of motivating people to work together.

Today he is often back in Berkeley Square, in Linde's London office, though he has nothing to do with luxury goods or trendy design. Instead, he rejoices in the in-built stability of a group that serves every industrial sector and has a footprint in 100 countries. The car market is saturated in rich countries and perilous in emerging markets, but industrial gases grow at twice the rate of GDP, come rain or shine. Mr Reitzle's main concerns, now that the integration of BOC is complete, are about ensuring the group has enough exposure to China and India. Some people expect him to pop up again in the automotive business, though he says he is content where he is.

The hydrogen connection

But Mr Reitzle's career may yet come full circle. Linde is a big producer of hydrogen, which could be used to power the cars of the future. Indeed, BMW, his old firm, is pushing hydrogen as a cleaner alternative to petrol for internal-combustion engines, with vastly reduced carbon-dioxide emissions.

Mr Reitzle thinks the main value of this approach is that it could foster the construction of hydrogen filling-stations, which could later be used by a new generation of zero-emission cars powered by fuel cells. Together with energy giants Royal Dutch Shell, Total, RWE and E.ON, Linde is a member of a consortium that plans to build a network of such stations in Germany—a “hydrogen highway” that could give German carmakers a head-start in commercialising fuel-cell vehicles. Most people expected to see Mr Reitzle back in the motor industry. But few expected him to be selling the fuel.

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Inflation in emerging economies

An old enemy rears its head

May 22nd 2008 | HONG KONG
From The Economist print edition

ImagineChina

Emerging economies risk repeating the same mistakes that the developed world made in the inflationary 1970s

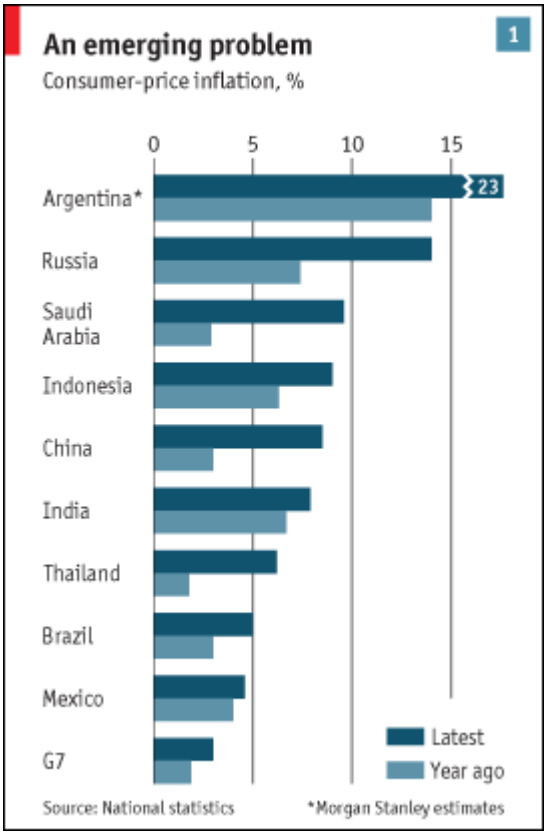
EVEN as America's economy teeters on the brink of recession and many European economies are slowing, central bankers in rich countries fear rising inflation. Yet the risks they face are smaller than those in emerging economies, where inflation has risen far more over the past year to its highest for nine years. There are also an alarming number of similarities between developing economies today and developed economies in the early 1970s, when the Great Inflation took off. Are the young upstarts heading for trouble?

China's official rate of consumer-price inflation is at a 12-year high of 8.5%, up from 3% a year ago (see chart 1). Russia's has leapt from 8% to over 14%. Most Gulf oil producers also have double-digit rates. India's wholesale-price inflation rate (the Reserve Bank's preferred measure) is 7.8%, a four-year high. Indonesian inflation, already 9%, is likely to reach 12% next month, when the government is expected to raise the price of subsidised fuel by 25-30%.

Inflation in Latin America remains low relative to its ignominious past. Even so, Brazil's rate has risen to 5% from less than 3% early last year. Chile's has leapt from 2.5% to 8.3%. Most alarming are Venezuela, where the rate is 29.3%, and Argentina. Officially, Argentina's inflation rate is 8.9%, but few economists believe the numbers. Morgan Stanley estimates that the true figure is 23%, up from 14.3% last year.

Indeed, official figures understate inflationary pressures in many emerging economies. Widespread government subsidies and price controls are one reason, and price indices are often skewed by a lack of data or government cheating. China's true inflation rate may be higher because the consumer-price index does not properly cover private services. Delays in data collection in India can mean big revisions to inflation: the final

number for early March was almost two percentage points higher than the original. The latest wholesale-price inflation rate might therefore be pushed up to 9-10%. If measured correctly, five of the ten biggest emerging economies could have inflation rates of 10% or more by mid-summer. Two-thirds of the world's population may then be struggling with double-digit inflation.



The recent jump has been caused mainly by surging oil and food prices. For example, in China food prices have risen by 22% in the past year, whereas non-food prices have gone up by only 1.8%. Governments have responded with more price controls and export bans. India's government has suspended futures trading in several commodities, which it blames (wrongly) for high prices. In the short run such measures may help to cap inflation and avoid social unrest, but in the long run they do more harm than good. Preventing prices from rising reduces the incentive for farmers to increase supply and for consumers to curb demand, prolonging the very imbalance that has stoked prices.

Some central banks, including those in Brazil, Indonesia and Russia, have nudged up interest rates this year. But they have not kept pace with inflation, so real rates have fallen and are now negative in most countries, with a few exceptions such as Brazil, Mexico and South Korea. Russia's main policy rate of 6.5% is almost eight percentage points below its inflation rate. China's real lending rate is minus 1%.

Many policymakers in emerging economies argue that serious monetary tightening is not warranted: higher inflation, they say, is due solely to spikes in food and energy prices, caused by temporary supply shocks and speculation. Higher interest rates cannot call forth more pigs or grain. They expect inflation to ease later this year as higher prices prompt an increase in supply (food prices have started to edge down over the past month) and as sharp rises in commodity prices drop out of year-on-year comparisons.

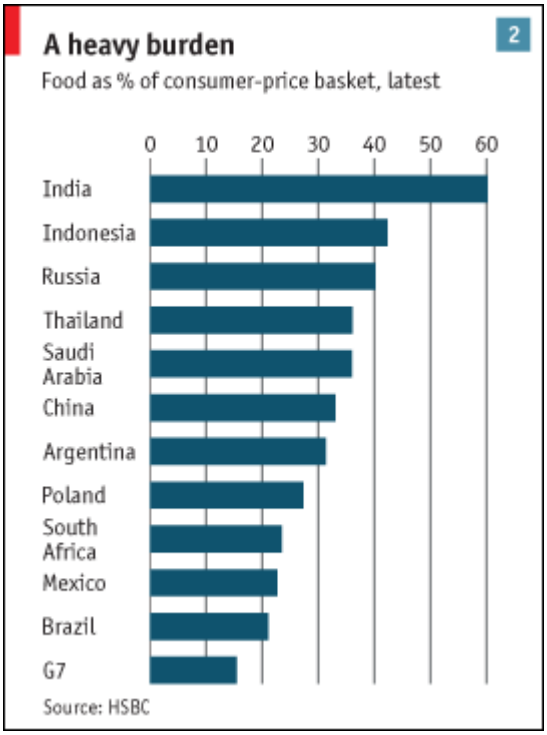
Yes, food inflation is likely to slow later this year; but that does not mean rising headline inflation can be ignored. The synchronised jump in global food prices suggests that there is more to the story than disruptions to supply. Prices are also rising partly because loose monetary conditions in emerging economies have boosted domestic demand. These economies have accounted for over 90% of the increase in global consumption of oil and metals since 2002 and for 80% of the rise in demand for grain. This partly reflects long-term structural forces, but it is also the product of a money-fuelled cyclical boom. Peter Morgan, of HSBC, says that the initial shock to food prices may have come from the supply side, but the strength of income and money growth helps to validate higher prices. Were monetary conditions tighter, rises in food prices might be offset by declines elsewhere, keeping inflation under control.

Another reason why central banks cannot ignore agflation is that it can quickly spill over into other prices. Food accounts for 30-40% of the consumer-price index in most emerging economies, compared with only 15% in the G7 economies (see chart 2). So food prices weigh more heavily on inflation expectations and hence wage demands than in the rich world. Tighter monetary policy would help anchor expectations and stop higher commodity prices spreading into the wider economy.

Analysis by Goldman Sachs, for 1990-2007, confirms that in emerging markets, higher food prices did seem to push up other prices. In most developed economies the link from food to non-food inflation was statistically insignificant. Besides the larger share of food, this has two causes: central banks' credibility is weaker in most emerging economies, so that inflation expectations are less firmly anchored; and real wages tend to be less flexible. Both increase the risk of a price-wage spiral.

Philip Poole, also of HSBC, says that many emerging economies have run out of spare capacity because investment has not kept pace with economic growth. Hence firms are more likely to pass on cost increases. In both Brazil and India capacity utilisation is at record rates. Brazil's unemployment rate is at its lowest for almost 20 years. China, though, may still have some slack, thanks to strong investment.

The second-round effects of rising food prices are already visible in most economies. Andrew Cates, of UBS, calculates that in both Asia and Latin America the core rate of inflation (ie, excluding food and energy) has risen by one percentage point in the past year, to 3.4% and 6.2% respectively; in eastern Europe it has risen by three points, to 7.4%, largely because Russia is overheating. (In contrast, average core inflation in rich economies has barely budged.) Inflationary expectations are rising and workers clamouring for pay increases. In a survey of inflation expectations in Argentina, the average reply for the next 12 months was 36%. Russian wages are rising at an annual rate of almost 30%.



Turning off the tap

Some countries look more prone to rising inflation than others. From an analysis of wages, inflation expectations, demand and capacity pressures, and monetary growth, Mr Cates infers that Argentina, Brazil, India, Russia and the Middle East oil exporters face the biggest risks in the months ahead. Pressures seem less great in China, Mexico, South Korea and Turkey.

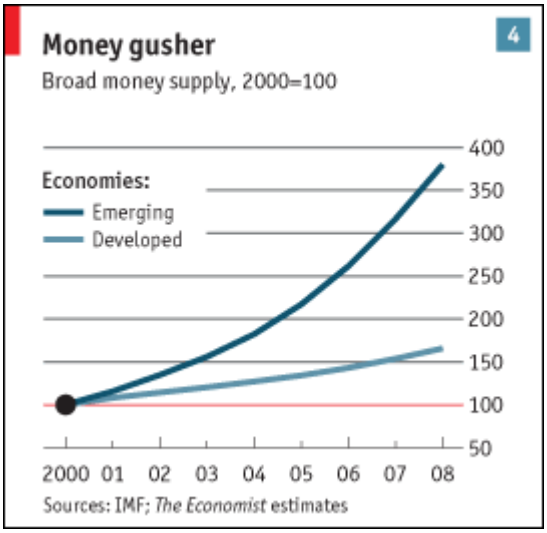
Clearly, monetary policy needs to be tightened. Instead, it has in effect been loosened: real interest rates are generally lower than they were a year ago. Short-term interest rates are also unusually low relative to nominal GDP growth (a crude gauge of where rates should be), which implies that monetary policy is very loose (see chart 3). The broad money supply has grown by an average of 20% over the past year in emerging economies, almost three times the pace in the developed world (see chart 4). Russia's money supply has swelled by fully 42%.

Add all this up, and emerging economies bear strong similarities to rich countries in the 1970s, when the Great Inflation took off. A synchronised boom in the world economy has caused commodity prices to surge. Governments have responded with subsidies and wage and price controls. Official statistics understate price pressures. Economies are running at full pelt. Money-supply growth is soaring. Inflation expectations are not anchored and labour markets are fairly rigid, increasing the risk of a spiral in wages and prices.

According to conventional wisdom, the monetary-policy mistakes that caused the Great Inflation are much less likely today because central banks are independent of politicians. But unlike the Federal Reserve and the European Central Bank (ECB), many central banks in emerging economies (notably China, India and Russia) are not fully independent. In another echo of the 1970s, they often face intense political pressure to hold rates low to boost growth and jobs.

Emerging economies are also in danger of repeating the blunder of central bankers in the rich world in the 1970s: they focus on core inflation as a reason for holding interest rates below the headline inflation rate. But negative real interest rates then further boost demand, while rising inflation

expectations trigger bigger pay claims. Unless central banks tighten their grip soon, inflationary expectations could surge.



Central banks' monetary independence is also severely constrained by governments' desire to hold down currencies at a time when international capital is highly mobile—a problem the developed world did not face three decades ago. When central banks intervene in the foreign-exchange market to prevent a currency appreciating, they have to print money to buy dollars, which boosts domestic liquidity. The Fed's recent interest-rate cuts have made it even harder for emerging economies to tighten policy. If they raise rates they attract bigger capital inflows, and the extra intervention required to hold down their currency fuels inflation further, defeating the rate rise.

The central banks of both China and India have raised banks' reserve requirements several times this year to try to mop up excess liquidity, but they have left interest rates unchanged. The recent slide in the rupee leaves the Reserve Bank of India with more room to raise rates, but it has been slow to act. Hong Kong and the Gulf states, which still peg their currencies tightly to the dollar, have even been forced to cut interest rates, although their buoyant economies need tighter policy.

You might suppose that a downturn in America would tend to slow the emerging economies, but they have continued to sprint. Although emerging economies may have decoupled from America, their monetary policies have not. As a result, a slowing United States could perversely prove inflationary for them. The more the Fed cuts, the stronger the growth in liquidity and domestic demand in the developing world. In turn, this means higher commodity prices, which further squeeze American incomes and spending, prompting the Fed to push interest rates even lower. One way to regain control of interest rates is to impose tougher temporary restrictions on capital inflows. For example, in March Brazil introduced a 1.5% tax on foreign investment in government bonds. However, most studies suggest that capital controls do not work well in the long term.

To many Western economists and policymakers the solution is simple: emerging economies should allow more flexibility in their exchange rates. This would permit them to raise interest rates, and a stronger currency would help to curb import prices. But the links between exchange rates and inflation are complicated. Stephen Jen, of Morgan Stanley, argues that revaluation could encourage investors to expect further appreciation, which would attract yet more inflows of hot money and so exacerbate inflation. This is the problem that China now faces.

The only way to stem speculative inflows is to revalue a currency by so much that investors do not expect a further rise. But how much is that? Take the yuan. Mr Jen reckons it is already near “fair value” against the dollar, judged by such things as relative productivity growth and the terms of trade. On the other hand, to eliminate China's current-account surplus, the yuan might need to rise by a staggering (and politically unacceptable) 100%.

Mohsin Khan, the IMF's director for the Middle East and Central Asia, made a similar argument last week for the Gulf states. They should not revalue or modify their exchange-rate regimes now, he said, although inflation is high and rising. Any move too small to alter investors' expectations could draw in more short-term capital and add to inflationary pressures.

With capital so mobile and America's monetary policy so loose, emerging economies have no easy fix for inflation. Interest rates clearly need to be raised by a lot, but a tidal wave of capital could either boost domestic liquidity or cause currencies to become overvalued. Brazil has allowed its currency to rise by more than 100% against the dollar over the past five years. This has helped to bring inflation down (though it is now rising again), but the real is now widely thought to be overvalued, pushing the current account back into deficit.

One solution is to tighten fiscal policy, which would reduce excess demand. Rapid growth in public spending is partly to blame for the excessive growth in Brazil's domestic demand. But fiscal tightening would be hard to justify in China, which already has a budget surplus. A larger surplus would boost domestic saving and hence the country's

AP

already large current-account surplus.

Either way, emerging economies need to accept that because their productivity growth is faster than the rich world's, their real exchange rates will have to rise over time. That must mean either a rise in the nominal exchange rate or higher inflation; they cannot escape both.

What does higher inflation in emerging economies mean for the rich world? Continued rapid growth in those economies means that the prices of food, energy and raw materials will remain high. In other words this is a permanent relative-price shock, not a temporary one. Yet this does not mean that commodity prices will keep rising at their current pace. Higher prices will encourage increased supply. And even if prices remain at today's levels, the 12-month rate of increase will decline, helping to ease global inflation.

The only way is up

There are also concerns, however, that after many years in which its exports have helped to hold down global prices, China is now exporting inflation in manufactured goods. Figures from America's Bureau of Labour Statistics show that after falling for several years, the prices of imports from China rose by 4.1% in the year to April, the largest 12-month increase since the series started in December 2004.

China's new export?

However, Jonathan Anderson, of UBS, reckons that the sudden spurt in the prices of Chinese goods is misleading. If you look instead at the dollar prices of Chinese re-exports from Hong Kong (a series with a much longer pedigree), mainland export prices have been rising by around 3% a year since 2004. And if export prices have picked up recently this is entirely because of the rise in the yuan against the dollar, not faster inflation in China.

In any case, the impact of China on global inflation depends on differences in price levels between countries, not on the rate of change in its export prices. China has helped to hold down inflation in developed economies because its goods are much cheaper and they are gaining market share, replacing more costly goods. This will remain true for many years. Competition from China also forces local producers to cut their prices and it curbs wage demands in rich countries. As China moves up the value chain it will pull down the prices of a wider range of products. In other words, China will continue to help hold down global prices—although possibly by less than in the past.

The biggest risk from rising inflation lies in emerging economies, not in the developed world. Because food has a much bigger weight in household spending, not only are those economies more prone to a surge in inflation now, but the social and political consequences would also be more severe. This week Jean-Claude Trichet, the ECB's president, warned central banks around the globe not to repeat the mistakes of the 1970s. Back then, emerging economies played a far smaller role in the world than they do now. To maintain their new-found strength, their policymakers need to keep a firm grip on inflation. The longer it is allowed to climb, the greater the danger to future economic growth.

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Global housing markets

Structural cracks

May 22nd 2008 | LONDON AND MADRID
From The Economist print edition

The pain in Spain falls mainly on Mr Drains

PESSIMISTS used to wear a sandwich board announcing "the end is nigh"; now they just set up a website. And Jeremiahs are no longer solitary figures, particularly when it comes to the housing market. Proof that misery loves company can be found on the forum www.globalhousepricecrash.com where the running total of discussion topics this week was 14,455, eliciting some 171,609 responses.

***The Economist*'s house-price indicators**

% change

	Latest	Q1 2007	1997-2008
	on a year earlier		or latest
Singapore	29.8	13.8	na
Hong Kong	28.2	5.6	-23
Australia	13.8	9.6	174
Sweden	11.3	8.0	150
China	10.7	5.6	na
Belgium	7.5	10.0	147
South Africa	6.8	15.6	401
New Zealand	6.5	11.7	125
Canada	5.7	9.6	80
France	5.7	8.1	151
Italy	5.1	5.6	102
Spain	3.8	7.2	195
Netherlands	2.5	4.3	99
United States (OFHEO)	0.8	4.6	94
Switzerland	0.5	2.5	19
Denmark	0.3	10.0	124
Japan	-0.7	-1.5	-33
Britain	-1.0	9.5	202
Germany	-4.7	0.6	na
Ireland	-8.9	9.2	220
United States (Case-Shiller national index)	-8.9	-1.7	104
United States (Case-Shiller ten-city index)	-13.6	-1.2	138

Sources: ABSA; ESRI; Hypoport; Japan Real Estate Institute; Nationwide; Nomisma; NVM; OFHEO; Quotable Value; Stadim; Swiss National Bank; Standard & Poor's; government offices

But our round-up of international house-price indicators (see table) suggests that any crash is far from universal. Only five countries have suffered annual house-price falls in the latest data and two of those—Japan and Germany—have been in the doldrums for a decade.

This relatively rosy picture may reflect the use of annual, rather than monthly, figures. In particular, the impact of the credit crunch, by restricting the availability of mortgage finance, is having a negative effect on demand in both Europe and America. It is a fairly safe bet that the data will look less reassuring in six months' time.

But clearly, some markets have been doing extremely well, even if more uncertainty has crept in lately. Singapore and Hong Kong have benefited from the booming Asian economy, which has led many

multinationals to open offices in the two financial centres. An analysis by DTZ Debenham Tie Leung, an estate agency, found that the number of homes bought by foreigners in Singapore jumped by 71% last year. In addition, both Singapore and Hong Kong manage their exchange rates against the American dollar. Hence they import American monetary policy, which may be too loose for their domestic conditions. The cheaper real cost of finance encourages more property buying.

Similarly, Spanish and Irish housing probably boomed earlier this decade because of their economies' fringe status in the euro zone. Neither is big enough to determine European output or inflation rates by itself. But as a result of the “one-size-fits-all” monetary policy, interest rates in both countries were set too low.

Whereas Irish house prices have been falling for some time, the Spanish numbers still show a small annual increase. But Julian Callow of Barclays Capital reckons that may reflect the way the numbers are calculated; the figures depend not on market prices, but on valuers, who may be cautious about cutting their estimates. Even our figure of 3.8% represents a fall in real terms, since the inflation rate is 4.2%.

Spain and Ireland stand out as economies that have been dominated by housing. According to Goldman Sachs, construction and housing-related employment in both countries made up 13% of all private-sector jobs at the end of last year, against 9% in America and 5% in Germany. Meanwhile, nominal residential investment was 11% of GDP in Ireland and 9% in Spain, against 6% in America.

That has caused a glut. More than 4m Spanish dwellings have been built over the past decade, according to Britain's Royal Institution of Chartered Surveyors. Its survey of European property suggests that far more Spanish houses were being built last year than are likely to be needed in steady market conditions, let alone a slump.

Nowhere is this excess clearer than in the community of Seseña, just half an hour's drive from Madrid in the dry plains of Castile. Francisco Hernando, nicknamed “*El Pocero*” or Mr Drains, obtained planning permission to build 13,500 new homes, one of the largest residential complexes in Spain. The Spanish press speculates that 2,500 have been sold, and only about 750 people have moved in.

As in other countries, Spanish banks are tightening conditions on mortgages as the number of non-performing loans rises, pricing out potential buyers. As a result, house sales are plunging. The number of completed sales in February was 24.4% below the same month last year, according to the National Institute of Statistics.

Both Spain and Ireland have parallels with the American housing market, where the inventory of unsold homes has hit a 20-year high, according to Capital Economics. There the pace of price decline, as measured by the S&P/Case-Shiller indices, has been accelerating.

Britain is something of an exception. Whereas housebuilding grew by 187% in Spain and 177% in Ireland between 1996 and 2006, the British increase was just 12%. Planning restrictions meant fewer homes were built (although there was speculative development of apartments), which may also explain why house prices in the country have almost doubled, in real terms, since 1999.

Some may take this to mean that British house prices are less likely to fall than certain other markets. But potential homebuyers will undoubtedly be hit by the change in lenders' attitudes; a sizeable deposit is now normally required. Ed Stansfield of Capital Economics reckons prices may fall by at least 20%.

Two other markets at risk are Australia and New Zealand. Both have benefited from higher commodity prices and have seen increases in construction-related employment. Their central banks have responded by tightening monetary policy; the last time rates were cut in either country was more than four years ago.

Since 1997 house prices have risen faster in Australia than New Zealand, but Goldman reckons that the latter is more vulnerable. Real house prices are 82% higher than they were in the last quarter of 1999, and have risen by 70% relative to household income, the biggest increase in all the countries Goldman has surveyed.

If house-price weakness does spread more widely, there may be important economic consequences. There is plenty of debate about the size of the “wealth effect” of higher property prices on consumer demand. But it will hardly help that fuel and food prices are soaring at the very moment when the value of bricks and mortar looks about to sag.

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Buttonwood

Catch two-and-twenty

May 22nd 2008
From The Economist print edition

The paradox of investing in alternative assets

Illustration by Satoshi Kambayashi

YALE'S David Swensen, who looks after the finances of the Ivy League college, is seen as the Warren Buffett of endowments. His decision to invest in hedge funds and private equity has been an enormous success, earning almost 18% a year over the past decade.

Managers of other college and charitable endowments, and an increasing number of pension funds, hope to follow Mr Swensen's lead. In a world where government bonds yield 4-5%, and where stockmarket returns have been disappointing for almost a decade, institutions are desperate to increase returns. A survey of pension-fund experts by Watson Wyatt, a consultancy, found there was a big appetite to tap “alpha”, or skill, in the fund-management industry and there was also a growing enthusiasm for “absolute-return” funds that aim to make money regardless of market conditions.

But suppose that every institution handed its portfolio to hedge-fund managers. The average fund manager cannot earn more than the market. After costs, he must earn less. An individual pension fund or endowment might succeed in its search for higher returns. But because hedge funds and private-equity fees are higher than normal—often a 2% annual fee and a 20% performance fee—the effect of the shift would be to lower the average return of investors, not increase it. A “catch two-and-twenty” is at work.

Hedge-fund and private-equity managers could argue that they can exploit market anomalies and produce returns that are not correlated with those of traditional asset managers. But is this argument valid? Private-equity firms invest in companies that are subject to the same economic forces as those quoted on the stockmarket. As a result, they tend to offer similar returns, only with more gearing. The biggest single hedge-fund category is “equity long-short”, which mixes bets on falling, as well as rising, share prices. The statistics suggest its returns are closely correlated with the stockmarket.

However, the hedge-fund industry is very varied. Some groups operate in fields like distressed debt, where markets may not be fully efficient and outsize returns could be achievable. But with some 10,000 hedge funds in existence, you would expect those niches to become smaller and smaller. Hedge funds may arbitrage their superior returns away.

In their Darwinian world, hedge funds are always looking for a new angle and may be able to exploit exotic asset classes like weather derivatives. But the trouble with such areas may not be the absence of alpha but the level of “beta”, or market return. Over the long run, equities and corporate bonds should provide a positive return over a risk-free rate such as Treasury bills; if companies did not make profits, capitalism would be in trouble. But in more exotic asset classes, the long-term expected return may be zero, or at least less than the risk-free rate.

And that raises another catch two-and-twenty with alternative assets. Theory suggests that a more diversified portfolio should offer a better trade-off between risk and return—the appeal of absolute-return portfolios is that they settle for lower returns in the best times in exchange for protection in the bad ones. But is this what pension funds and endowments really want? Traditionally they have invested in shares and property—both volatile—because they are in for the long haul and can ride out short-term price fluctuations.

In theory, institutions could exploit the better risk-return trade-off by investing in hedge funds instead of bonds and having a more risky portfolio. But regulatory and accounting pressures are instead forcing

them to increase their bond weightings; hedge funds end up being substituted for equities instead. The result could be lower returns—the last thing these funds need.

The final catch is whether the risk-return trade-off will be as good in practice as it is in theory. In recent years the returns of the hedge-fund industry have become more correlated with the stockmarket. This may have been due to smart managers riding the bull market of 2003-07.

But another explanation is that diversification has a built-in curse. It is possible for asset classes to be uncorrelated when they are small, as private-equity groups and hedge funds still were in the 1990s. When they become big, however, they become lumped together as risky assets; bought when investors are feeling confident and sold when they are nervous. Whereas hedge funds proved a haven during the 2000-02 bear market, they have become less of a hedge recently; the average fund-of-funds has lost 2.9% this year according to EDHEC, a French business school. Alternative assets may not really be that alternative after all.

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America's mortgage giants

Haggling on the Hill

May 22nd 2008 | NEW YORK
From The Economist print edition

Reining in Fannie Mae and Freddie Mac

THERE was lofty talk of bipartisanship in Washington, DC, this week as a bill to rescue struggling homeowners cleared a key Senate committee, the biggest hurdle it is likely to face. But the noise in the background was the unmistakable sound of horses being traded.

Democrats got their expansion of the Federal Housing Administration (FHA), the government agency that supports low-cost housing. It will guarantee up to $300m of refinancing of “underwater” mortgages as long as lenders agree to cut the principal owed to below the home's current value (a big if; the scheme is voluntary).

But Republican sceptics extracted their pound of flesh. The cost will be limited to $500m, and covered not by the taxpayer but by America's housing-finance giants, Fannie Mae and Freddie Mac (known as Government Sponsored Entities, or GSEs). More importantly, Fannie and Freddie will face much stricter regulation. As Rajiv Setia of Barclays Capital puts it, to secure the mortgage-rescue plan “the Democrats essentially gave in on the GSEs”.

Reform of Fannie and Freddie, today regulated by the feisty but legally toothless Office of Federal Housing Enterprise Oversight (OFHEO), has long been a White House goal—especially since they were caught misstating earnings a few years ago. Some worry that their vastness poses a systemic risk: at $5.3 trillion, their portfolios exceed the total stock of American government debt in private hands. Concern has only risen as private mortgage lenders have retreated; the GSEs' share of monthly issuance of mortgage securities has doubled, to 84%, since 2006.

Curbs imposed after the accounting debacle limited the damage this time. Fannie and Freddie have nevertheless lost a combined $11.1 billion in the past three quarters. In March confidence in them all but evaporated, sending the spread over Treasuries on GSE-backed securities above the levels where even junk bonds were trading before the crisis. It has since fallen back, but remains high.

A new regulator would have powers akin to those of a bank supervisor. It could insist on asset disposals and, crucially, enforce standards for the firms' portfolios, such as their rate of growth. It could also coax Fannie and Freddie into operating counter-cyclically by building capital in good times and lowering requirements in falling markets. Pro-cyclical regulation exacerbated the credit crunch.

The regulator would have control over the GSEs' capital levels, which are now determined by Congress. The minimum requirement is sure to rise over time, even if Fannie and Freddie are cut some slack until markets stabilise. James Lockhart, OFHEO's director and the putative first boss of the new agency, recently called them a “point of vulnerability” because of their lofty leverage. Fannie would have to double its core capital to be considered a well cushioned commercial bank.

The GSEs argue that this is a false comparison, since the bulk of their portfolios is made up of guarantees, not loans. But Barclays Capital's Mr Setia sees a tougher regulatory regime as a “huge long-term positive” for markets, as it should restore confidence in their devalued debt. It may also assuage fears of another blow-up.

It is not all bad for the housing giants. They should like the FHA provisions, since the agency can now refinance loans that they might otherwise have to write down. And their pricing power has grown as Wall Street's mortgage desks have imploded, so they should be able to afford the cost.

Still, expect them to lobby hard against regulation when the bill moves to the Senate floor. There are numerous differences between the House and Senate versions to exploit, points out Bert Ely, a GSE-watcher. He sees a reasonable chance of the legislation being watered down. Fannie and Freddie are not

yet in the corral.

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European banks

Tiers for fears

May 22nd 2008
From The Economist print edition

Barclays and Deutsche Bank come under scrutiny over balance sheets

NOT raising capital during the credit crisis has so far been a sign of strength. May it now be turning into a source of weakness? As regulators and shareholders demand a more cautious approach, the bar is being raised on what constitutes an acceptable level of protection. Banks that have resisted seeking new capital are under scrutiny, and none more so than Barclays and Deutsche Bank.

The questions are particularly pointed in Europe, where regulators have cleaved to the Tier 1 capital ratio, a measure of capital based on the riskiness of bank assets. That had some unfortunate results. Some assets that were assumed to be safe turned out to be booby-trapped. Many banks gamed the rules by shunting assets into off-balance-sheet vehicles, where capital charges were lower. In America supervisors also kept an eye on the leverage ratio, which measures capital as a share of total assets, no matter how risky they are.

Change is in the air. Some banks have already hiked their Tier-1 targets, in expectation of a harsher economic climate and a more robust stance from regulators. Royal Bank of Scotland, whose huge £12 billion ($24 billion) rights issue was approved by shareholders on May 14th, has raised its target for both Tier 1 and core Tier 1 capital (which strips out impure types of equity such as preferred shares).

Crédit Agricole, a French bank that unveiled plans for a large rights issue on May 15th, has also boosted its capital targets. Bertrand Badré, the bank's finance chief, told analysts that regulators were signalling that a mark of 8% for Tier 1 capital, and 6% for core Tier 1 capital, may emerge as minimum requirements (in line with the existing averages for European banks but above that of some institutions). This sense of the ground moving is what dogs Barclays, a British bank with a core Tier 1 ratio of around 5% that has so far held out against calls to boost its capital.

Deutsche Bank's Tier 1 capital is strong by comparison, but it finds itself under the microscope for its high level of nominal leverage. Number-crunchers at Citigroup calculate that the Wall Street banks were 30 times leveraged at the end of 2007, compared with 59 times at the German bank. Recent analysis by Dresdner Kleinwort puts Deutsche alongside Barclays at the foot of a balance-sheet league table of European and American banks (see chart).

Deutsche argues that such comparisons are misleading for two reasons. The first is technical: Deutsche switched to International Financial Reporting Standards at the start of 2007, a move that forced it to gross up the value of its abundant derivative exposures. If the bank were still reporting under its old standard of US Generally Accepted Accounting Principles, its assets would shrink by some 30%, bringing it closer to the Wall Street average.

The second reason is more fundamental: the bank argues that the health of a balance sheet should be judged by what you own, not how much you own. Deutsche says that its exposure to toxic assets is manageable. Although further falls in the value of assets like Alt-A mortgages would hurt, they would not chew up too much equity. And if push came to shove, it would be able to shrink its assets because of its strength in liquid markets such as repo agreements and swaps.

These arguments have some force. American banks may be more strongly capitalised than European ones, but many were worse at avoiding trouble. Capital hold-outs might also argue that a rebound in market prices could turn some write-downs into write-backs, quickly bolstering equity. The problem for Deutsche, and for Barclays, is that they face a far more sceptical audience of investors and regulators. “If it comes down to ‘trust me’, then the answer is ‘no’,” says one analyst.

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Consumer finance in Japan

Lenders of first resort

May 22nd 2008 | TOKYO
From The Economist print edition

Japan's moneylenders offer banks a lesson in risk management

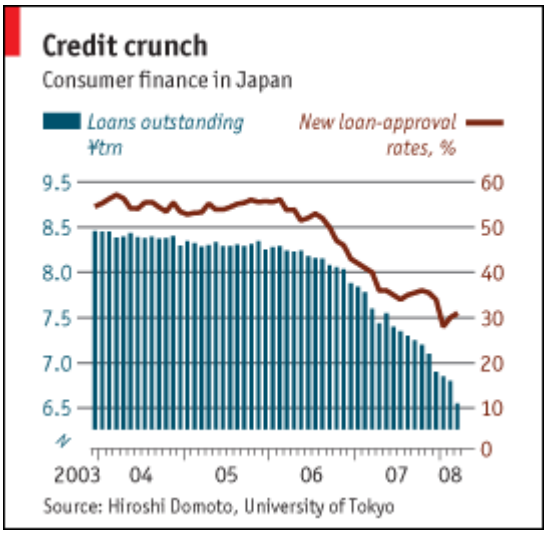
THEY would call a borrower's workplace a dozen times in an hour demanding repayment. Or send debt collectors to his home in the middle of the night. If the fellow said he could not pay, the representative might recommend he sell a kidney or an eye to raise the cash (and perhaps offer to remove it for him). Some of Japan's moneylenders were an ugly lot.

Yet that never stopped them from being a cornerstone of Japanese consumer finance. Around 14m people, or 10% of the population, have borrowed from a moneylender, or *sarakin*. There are about 10,000 firms (down from 30,000 a decade ago). The value of outstanding loans totals $100 billion. The biggest ones are publicly traded and often allied with big banks; the top seven make up 70% of the market. But in pockets of the industry, organised-crime groups, or *Yakuza*, are never far away, notes Jake Adelstein, an expert on Japan's tattooed mobsters.

The business fills an important niche in Japanese society. Where borrowing from the bank is considered shameful and often requires a guarantor, *sarakin* loans can be as little as $100, borrowers need identification but not collateral, and transactions at kiosks akin to ATM machines take just a few minutes. Loan rates used to be as high as 29.2%—in a country with near-zero official rates. After an outcry at the high levels of debt and the repayment tactics, a law in 2006 capped interest rates at 20% by 2010, and regulated collection methods. Loans were not allowed to exceed one-third of an annual salary. *Sarakin* were even forbidden from buying suicide insurance on borrowers, since it could lead to, ahem, “moral hazard.”

The new rules clobbered the share prices of the listed moneylenders and the volume of loans of the industry as a whole (see chart). Many firms went bankrupt. Some are for sale. GE is selling Lake, its consumer-finance division. Citibank is considering disposals, too. But regulation may bring respectability. As the worst practices are proscribed, mainstream banks are moving in.

The result is that the biggest moneylenders are adjusting their business models to provide back-office credit-checking services to the banks. That makes sense: after all, quickly assessing a borrower's ability to repay is at least as central to their business as providing the money. What is more, Japan does not have the same credit-bureau culture as the West. Each financial institutions does its own scoring, and information on a borrower's creditworthiness is not widely dispersed.



So while the banks can now act as the shop-front for consumer loans, the *sarakin* can toil away in the background giving the thumbs up or down on the borrowers. They can also collect the debts (so long as the muscle plays by the new rules). They may also act as a guarantor on a bank loan.

This change is happening just as lending to companies becomes less lucrative and Japan's big banks are focusing on consumer finance. Sumitomo Mitsui, which owns 20% of Promise, one of the biggest *sarakin*, and Mitsubishi UFJ, with a 13% stake in Acom, another lender, are each unifying their disparate consumer-finance and credit-card operations.

These are tentative steps. Critics of the 2006 law have argued that it has dampened lending—and hence consumption—just when the fragile economy needs it most. Still, Taku Otsuka, a parliamentarian who championed the law, believes that better practices may ultimately bring in more reliable borrowers who

would have felt ashamed to use a *sarakin*. If it helps to improve the credit-scoring culture in Japan to boot, so much the better.

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Economics focus

On the poverty line

May 22nd 2008
From The Economist print edition

Has “a dollar a day” had its day?

IN DECEMBER 2007 the World Bank unveiled the results of the biggest exercise in window shopping in history. Scouts in 146 countries scoured stalls, supermarkets and mail-order catalogues, recording the price of more than 1,000 items, from 500-gram packets of durum spaghetti to low-heeled ladies' shoes.

This vast enterprise enabled the bank to compare the purchasing power of many countries in 2005. It uncovered some statistical surprises. Prices in China, for example, were much higher than earlier estimates had indicated, which meant the Chinese income in 2005 of 18.4 trillion yuan ($2.2 trillion at then-market exchange rates) could buy less than previously thought. At a stroke, the Chinese economy shrank, in real terms, by 40%.

Since then, many scholars have wondered what this economic demotion means for the bank's global poverty counts. It famously draws the poverty line at “a dollar a day”, or more precisely $1.08 at 1993 purchasing-power parity (PPP). In other words, a person is poor if they consume less than an American spending $1.08 per day in 1993. By this yardstick 969m people suffered from absolute poverty in 2004, a drop of over 270m since 1990. The world owed this progress largely to China, where poverty fell by almost 250m from 1990 to 2004.

But if the Chinese economy was 40% smaller than previously thought, surely its poverty count must be correspondingly higher. Surjit Bhalla, of Oxus Investments, speculated that China's toll would increase by more than 300m. He mischievously accused the bank's number-crunchers of conspiring to lift the poverty count so as to keep their employer in business beyond its natural life.

Give a quarter, take a quarter

The dollar-a-day definition of global destitution made its debut in the bank's 1990 *World Development Report*. It was largely the discovery of Martin Ravallion, a researcher at the bank, and two co-authors, who noticed that the national poverty lines of half-a-dozen developing countries clustered around that amount. In two working papers* published this week, Mr Ravallion and two colleagues, Shaohua Chen and Prem Sangraula, revisit the dollar-a-day line in light of the bank's new estimates of purchasing power. They also provide a new count of China's poor.

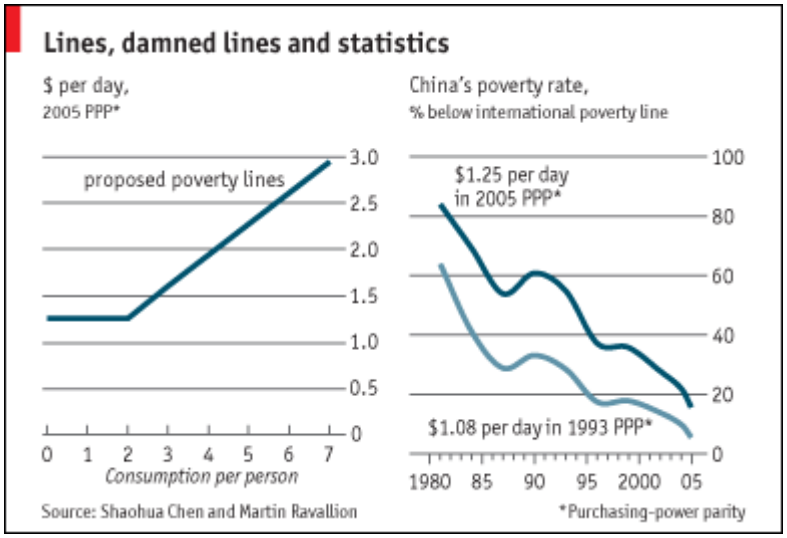
Thanks to American inflation, $1.08 in 1993 was worth about $1.45 in 2005 money. In principle, the researchers could count the number of people living on less than this amount, converted into local money using the bank's new PPP rates. But $1.45 a day strikes the authors as a bit high. Rather than update their poverty line, they propose to abandon it. It is time, they say, to return to first principles, repeating the exercise Mr Ravallion performed almost two decades ago, using the better, more abundant data available now.

They gather 75 national poverty lines, ranging from Senegal's severe $0.63 a day to Uruguay's more generous measure of just over $9. From this collection, they pick the 15 lowest (Nepal, Tajikistan and 13 sub-Saharan countries) and split the difference between them. The result is a new international poverty line of $1.25 a day.

Why those 15? The answer is philosophical, as well as practical. In setting their poverty lines, most developing countries aim to count people who are poor in an absolute sense. The line is supposed to mark the minimum a person needs to feed, clothe and shelter himself. In Zambia, say, a poor person is defined as someone who cannot afford to buy at least two to three plates of *nshima* (a kind of porridge), a sweet potato, a few spoonfuls of oil, a handful of groundnuts and a couple of teaspoons of sugar each day, plus a banana and a chicken twice a week.

But even in quite poor countries, a different concept of poverty also seems to creep in, the authors argue. It begins to matter whether a person is poor relative to his countrymen; whether he can appear in public without shame, as Adam Smith put it.

This notion of relative deprivation seems to carry weight in countries once they grow past a consumption of $1.95 per person a day. Beyond this threshold, a country that is $1 richer will tend to have a poverty line that is $0.33 higher (see chart). The authors thus base their absolute poverty line on the 15 countries in their sample below this threshold.



How many people in the world are poor by this new definition? The authors are not yet ready to say. But they have taken another look at China. By their new standard, they find that 204m Chinese people were poor in 2005, about 130m more than previously thought.

That is the bad news. The brighter news is that China's progress against poverty is no less impressive than previously advertised. By Mr Ravallion's and Ms Chen's new standard, the number of poor in China fell by almost 407m from 1990 to 2004, compared with the previous estimate of almost 250m.

China's economic co-ordinates may be different than thought, but its trajectory is much the same. And therein lies a lesson. Give or take a dime or two, it matters little where a poverty line is drawn. Like a line in the sand, an absolute poverty standard shows whether the economic tide is moving in or out. It does not matter too much where on the beach it is drawn.

For practical purposes, policymakers will always care more about their own national poverty lines than the bank's global standard. The dollar-a-day line is more of a campaigning tool than a guide to policy. And as a slogan, $1.25 just doesn't have the same ring to it. A better option might be to reset the poverty line at $1 in 2005 PPP, which would line up reasonably well with at least ten countries in the authors' sample. In adding a quarter to the dollar-a-day poverty line, the researchers may cut its popular appeal by half.

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*"Dollar a day revisited". Working Paper 4620.

"China is poorer than we thought, but no less successful in the fight against poverty". Working Paper 4621.

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Award

May 22nd 2008
From The Economist print edition

Caroline Lambert, our Southern African correspondent, has won South Africa's Sanlam Award for Excellence in Financial Journalism for best foreign correspondent.

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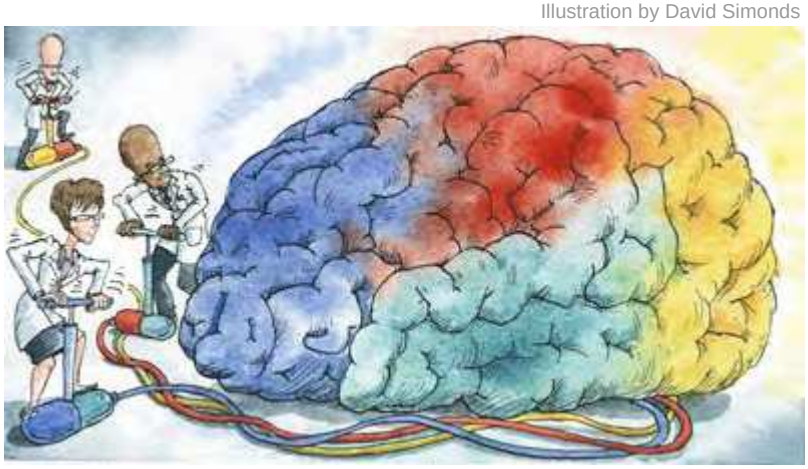
Cognitive enhancement

All on the mind

May 22nd 2008
From The Economist print edition

Illustration by David Simonds



Prepare for drugs that will improve memory, concentration and learning

FOR thousands of years, people have sought substances that they hoped would boost their mental powers and their stamina. Leaves, roots and fruit have been chewed, brewed and smoked in a quest to expand the mind. That search continues today, with the difference only that the shamans work in pharmaceutical laboratories rather than forests. If asked why, the shamans reply that they are looking for drugs to treat the effects of Alzheimer's disease, attention-deficit disorder, strokes, and the dementias associated with Parkinson's disease and schizophrenia—and that is the truth. But by creating compounds that benefit the sick, they are offering a mental boost to the healthy, too.

Such drugs are known as cognition enhancers. They work on the neural processes that underlie such mental activities as attention, perception, learning, memory, language, planning and decision-making, usually by altering the balance of the chemical neurotransmitters involved in these processes. This week a report* from the Academy of Medical Sciences, a British learned society, says that a large number of such brain-affecting drugs are likely to emerge over the next few decades. Sir Gabriel Horn, a researcher at Cambridge University who chaired the group that produced the report, reckons that scientists are working on more than 600 drugs for neurological disorders.

History suggests that most of these will fall by the regulatory wayside, but given their numbers, a fair few are likely to be approved. And although none of the companies working on cognition-enhancing drugs designed to treat illness intends to license them for wider use, that is what is likely to happen—at least going by the growing “off-label” use of existing drugs such as Ritalin (methylphenidate) and Provigil (modafinil) by people who want to pep themselves up.

Provigil and Ritalin really do enhance cognition in healthy people. Provigil, for example, adds the ability to remember an extra digit or so to an individual's working memory (most people can hold seven random digits in their memory, but have difficulty with eight). It also improves people's performance in tests of their ability to plan. Because of such positive effects on normal people, says the report, there is growing use of these drugs to stave off fatigue, help shift-workers, boost exam performance and aid recovery from the effects of long-distance flights.

Earlier this year, *Nature*, one of the world's leading scientific journals, carried out an informal survey of its (mostly scientific) readers. One in five of the 1,400 people who responded said they had taken Ritalin, Provigil or beta blockers (drugs that can have an anti-anxiety effect) for non-medical reasons. They used them to stimulate focus, concentration or memory. Of that one in five, 62% had taken Ritalin and 44% Provigil. Most users had somehow obtained their drugs on prescription or else bought them over the internet.

Given results like this, and the number of drugs of this kind that look likely to emerge, many people, including the authors of the report, believe that the use of cognition-enhancing drugs is going to grow a lot.

There are a number of approaches to cognition enhancement. One of them, according to Trevor Robbins, a colleague of Sir Gabriel's at Cambridge and another member of the working group, is to activate the brain's "off" and "on" switches. Crudely put, the brain's neural networks can be thought of as electrical circuits. Neurotransmitters throw the switches.

Thanks for the memory

One such neurotransmitter is glutamate. This throws switches to the "on" position in memory-forming circuits. Members of a newly discovered class of compounds, ampakines, boost the activity of glutamate and thus make it easier to form memories.

Cortex Pharmaceuticals, based in Irvine, California, is one firm that is developing ampakine drugs. One of its compounds, code-named CX717 to disguise its exact identity, is undergoing testing for Alzheimer's disease in elderly patients. Early trials have already shown that the drug can make people more alert. Unlike caffeine, amphetamines and other stimulants, CX717 causes no increase in blood pressure or heart rate. Nor does it offer any "high", so is unlikely to be addictive.

Paradoxically, another glutamate-booster, D-cycloserine, is being tested not to enhance memory, but to abolish it. The paradox is resolved because unlearning (or "extinction", in neurological parlance) is a process similar in its details to learning.

By binding to certain glutamate receptors, D-cycloserine selectively enhances extinction, suppressing the effects of conditioned associations such as anxiety, addiction and phobias. According to Dr Robbins, experiments have shown that if a rat is given a cue that it previously associated with fear at the same time as it receives D-cycloserine, the bad memory can be eliminated. Not only may this help remove unpleasant memories, such as those involved in post-traumatic stress disorder, but it may also help to return the brains of addicts to their pre-addicted states. It may, for example, be able to remove the triggers that cause smoking.

Another approach to cognitive enhancement, says Dr Robbins, is through a neurotransmitter called acetylcholine. Cholinergic neurons—the name for those that respond to this molecule—are involved in concentration, focus and high-order thought processes, as well as memory. It is the cholinergic system that degenerates in Alzheimer's disease.

Interest has thus focused on drugs that inhibit the breakdown of acetylcholine, and also on nicotine, which works by mimicking its effect. Dr Robbins says that cholinergic drugs may offer minor cognitive benefits for things like alertness, and similar drugs could be "potentially useful in normal humans".

Mind-expansion may soon, therefore, become big business. Even though the drugs have been developed to treat disease, it will be hard to prevent their use by the healthy. Nor, if they are without bad side-effects, is there much reason to. And if that is so, there may be a very positive side-effect on the profits of their makers.

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* "Brain science, addiction and drugs". The Academy of Medical Sciences, 10 Carlton House Terrace, London SW1Y 5AH

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Cognitive disenhancement

From he that hath not

May 22nd 2008
From The Economist print edition

If you are at the bottom of the heap, mental processes may keep you there

NEW drugs may help to enhance people's mental powers (see article). But a study carried out by Pamela Smith, of Radboud University Nijmegen in the Netherlands, and her colleagues suggests a less pharmacological approach can be taken, too. Their work, just published in *Psychological Science*, argues that simply putting someone into a weak social position impairs his cognitive function. Conversely, “empowering” him, in the dread jargon of sociology, sharpens up his mind.

Dr Smith focused on those cognitive processes that help people maintain and pursue their goals in difficult and distracting situations. She suspected that a lack of social power may reduce someone's ability to keep track of information and make plans to achieve his goals.

To explore this theory, she carried out three tests. In the first, participants were divided at random into groups of superiors and subordinates. They were told that the superiors would direct and evaluate the subordinates and that this evaluation would determine the subordinates' payment for the experiment. Superiors were paid a fixed amount. The subordinates were then divided into two further groups: powerless and empowered. A sense of powerlessness was instilled, the researchers hoped, by having participants write for several minutes about a time when they were powerless or by asking them to unscramble sets of words including “obey”, “subordinate” and so on to form sentences. The empowered, by contrast, were asked to write about when they had been on top, or to form sentences including “authority”, “dominate” and similar words.

The first test was of concentration. Participants saw words that meant colours—red and blue—written in different colours on a computer screen. They were asked to name the colours of the words (as opposed to the colours described by the words) as quickly and correctly as they could. Because most people read words more quickly than they can identify and name colours, this widely used method tests their ability to inhibit the urge to read what is written and instead focus on the task of naming the colour.

The second test was of memory. It involved a series of black letters presented in the centre of a white screen. Each letter was shown for half a second and followed by a blank screen for two seconds before the next letter appeared. Participants were instructed to indicate, as quickly and accurately as possible, whether each letter matched the letter shown to them two letters previously.

Finally, the volunteers were given a planning task that required them to move an arrangement of discs from a starting position to a final one in as few moves as possible. To perform this task well, they had to realise and accept the need to move their discs away from their intended goal before moving them closer.

In all three tests Dr Smith found that low-power participants made 2-5% more errors than their high-power counterparts. She argues that these results were not caused by the low-power volunteers being less motivated, as they had the same financial incentive as the high-power volunteers to do well. Instead, she suspects that those lacking in power suffered adverse cognitive effects from that very lack, and thus had difficulty maintaining their focus on the tasks.

If this is borne out by later experiments, it has important implications. Managers, always suckers for jargon, talk a lot about empowering their workers. However, they often fail to do so in practice. This is another reason why they should—unless, of course, they fear for their own authority.

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Vaccines

A shot in the dark no more

May 22nd 2008 | NEW YORK
From The Economist print edition

An age-old scientific mystery is solved

DOCTORS often exude an air of omniscience, but in truth they are surprisingly ignorant. For example, they have spent eight decades adding alum to vaccines as what is known as an adjuvant. Somehow, it boosts the immunity-inducing effectiveness of the antigens derived from whichever bug the vaccine is designed to protect against. But no one has known how it works. Alum is used in the textile industry as a way of making dyes bind to cloth. Possibly, the original thought may have been that it would play a similar binding role in the immune system.

What works, works, and it is not always necessary to know why. But recent years have seen a revival both of the vaccine industry in general and of the adjuvant side of things in particular. Not understanding how the oldest adjuvant of all does its stuff was thus becoming both an embarrassment and a barrier to further research.

Alamy

Of course we know how it works!

Stephanie Eisenbarth and Richard Flavell of Yale University seem, however, to have put adjuvant researchers out of their misery. As they report in this week's *Nature*, alum (or, strictly speaking, the aluminium within it) works by stimulating bits of the immune system called NOD-like receptors. These, in turn, activate the rather disturbingly named inflammasomes, and those go on to trigger inflammation, a standard immunological response to invasion by microbiological bad guys.

That knowledge, though arcane, is important, if only because it suggests other workers in the field have been looking in the wrong part of the immune system. Now they can look in the right part, and—with luck—come up with even better adjuvants.

The value of that is shown by another piece of news. This week GlaxoSmithKline, a big British drug company, won the European Union's approval for a “pre-pandemic” vaccine that promises protection against multiple strains of bird flu. This vaccine depends, according to Emmanuel Hanon, who helped develop it, on an oil-in-water-emulsion adjuvant so good that only a twentieth of the normal amount of antigen is needed. So how does this amazing adjuvant work? Dr Hanon admits that his team does not actually know.

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The Casimir effect

Much ado about nothing

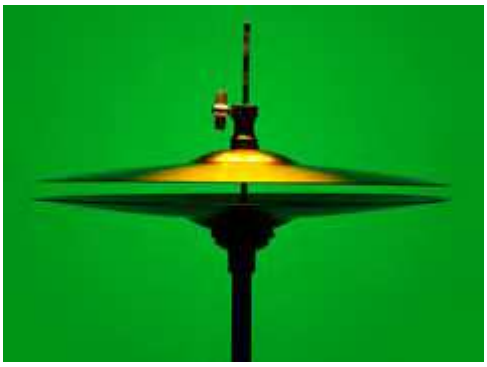
May 22nd 2008
From The Economist print edition

The Casimir effect, a curious consequence of quantum theory, may yet have practical applications

CAN something come of nothing? Philosophers debated that question for millennia before physics came up with the answer—and that answer is yes. For quantum theory has shown that a vacuum (ie, nothing) only appears to be empty space. Actually, it is full of virtual particles of matter and their anti-matter equivalents, which, in obedience to Werner Heisenberg's uncertainty principle, flit in and out of existence so fast that they cannot usually be seen.

However, in 1948, a Dutch physicist called Hendrik Casimir realised that in certain circumstances these particles would create an effect detectable in the macroscopic world that people inhabit. He imagined two metal plates so close together that the distance between them was comparable with the wavelengths of the virtual particles. (Another consequence of quantum theory is that all particles are simultaneously waves.) In these circumstances, he realised, the plates would be pushed together. That is because only particles with a wavelength smaller than the gap between the plates could appear in that gap, whereas particles of any wavelength could appear on the other sides of the plates. There would thus be more particles pushing in than pushing out, and the plates would clash together like a pair of tiny cymbals.

Alamy



Virtual percussion

A neat idea. And in 1996, it was shown experimentally to be true. But so what? The answer is that now things in the computing industry have become so small that the Casimir force is starting to affect them. Computer engineers talk of “stiction”—the phenomenon of microscopic components sticking together—and spend a lot of time trying to figure out ways to avoid it. The Casimir effect is not the only cause of stiction, but it is an important one.

Engineers are now beginning to understand how Casimir forces depend on a device's design—an essential starting point if Casimir-related stiction is to be eliminated. A forthcoming paper in *Physical Review Letters* by Ho Bun Chan of the University of Florida, Gainesville, shows how the force changes when one of the flat metal plates imagined by Casimir is replaced with a corrugated silicon one. Dr Chan found that the effect's size depends on the spacing of the trenches. This suggests that if you designed microelectronic components carefully, you could reduce stiction.

Stiction is not, however, always a problem, and work is also going on to turn the Casimir effect from a liability to an asset, by using it in what are known as microelectromechanical systems (MEMS). In 2001 Dr Chan and his collaborator Federico Capasso, who were then working at Bell Labs, published a paper showing one way to exploit the effect in MEMS. They made a tiny, gold-plated seesaw and slowly lowered a gold-plated ball towards it. At a distance of about 300 nanometres (a nanometre is a billionth of a metre), the seesaw began to tilt towards the ball. The effect was particularly strong at distances less than 150 nanometres. What Dr Chan and Dr Capasso had shown was that the Casimir force could be used to make a simple lever that might act as a tiny but accurate stress sensor in nanoscale machines.

What really excites researchers, though, is the idea that the Casimir effect may sometimes be repulsive. That would knock the problem of stiction firmly on the head and, according to Dr Capasso, would open up the possibility of making things like frictionless ball-bearings.

According to calculations made several decades ago by Evgeny Lifshitz, a Russian physicist, Casimir repulsion should be possible—but you have to replace the vacuum with a fluid. The maths suggest that in order for this to happen, both liquid and plates must be made of carefully chosen substances. This is because the repulsion is caused by electromagnetic charges induced in the plates and the liquid by the

virtual particles, and the forces produced by these charges depend on the materials you use.

As with Casimir's original suggestion, the gap between the theory and its practical demonstration has been a long one. But Dr Capasso, who is now at Harvard, and his student Jeremy Munday, have started investigating Lifshitz's ideas.

They recently performed an experiment in which they looked at what happens when the plates are made of gold and the fluid is ethanol. Although they did not succeed in reversing the attractive Casimir effect completely, they did reduce it by 80%—a reduction in line with Lifshitz's predictions. The right combination of materials, if it can be found, should therefore produce the desired reversal. That would be very good news for MEMS indeed.

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Population control

Horrid history

May 22nd 2008
From The Economist print edition

AFP

The road to controlling population growth in the 20th century was paved with good intentions and unpleasant policies that did not work, a new book argues

AN HISTORIAN who grew up as the youngest of eight children might well be expected to approach the question of whether the world is overpopulated from an unusual angle. Matthew Connelly, a professor at Columbia University, dedicates his study of those who thought the planet had too many people and tried to do something about it to his parents, “for having so many children”.

Yet, he assures the reader, it was not his personal experience of large families that drew him to the subject. Mr Connelly's mentor, Paul Kennedy of Yale University, believed it was necessary to look beyond great-power rivalries to understand the post-cold-war era. In 1994 the pair wrote an article for *Atlantic Monthly* arguing that population growth in poor countries, increasing awareness of global economic inequality and the prospect of mass migration could lead to clashes between the West and “the rest”.

When, years later, Mr Connelly began his own book on population growth, he still thought of the topic as a way to offer a broader understanding of world security. He ended up writing a very different—and angry—book, one about people who looked at the human race reproducing itself and saw what a gardener sees when looking at a prize plant: something to be encouraged to bloom in some places and pruned in others.

Fatal Misconception: The Struggle to Control World Population
By Matthew Connelly

Harvard University Press/Belknap; 544 pages; $35 and £22.95

Buy it at
Amazon.com
Amazon.co.uk

Mr Connelly starts with the 19th-century campaigners who published illegal manuals on birth control. He traces the evolution of population control through early-20th-century eugenics movements and the “population bomb” hysteria of the 1960s and 1970s to its culmination in large-scale attempts to cut birth rates in poor countries. He draws on the archives of non-governmental organisations and international bodies such as the World Health Organisation, as well as interviews and public sources, to tell his tale.

The population controllers are often arrogant. In 1927 a Rockefeller-funded study of contraception sought “some simple measure which will be available for the wife of the slum-dweller, the peasant, or the coolie, though dull of mind.” In 1935 one representative told India's Council of State that population control was

a necessity for the masses, adding that “it is not what they want, but what is good for them.” The problem with the natives was that “they are born too much and they don't die enough,” a public-health official in French Indochina stated in 1936.

All too easily arrogance slides into inhumanity. Much of the evil done in the name of slowing population growth had its roots in an uneasy coalition between feminists, humanitarians and environmentalists, who wished to help the unwillingly fecund, and the racists, eugenicists and militarists who wished to see particular patterns of reproduction, regardless of the desires of those involved. The first group knew perfectly well that economic development, education and rights for women were very effective in reducing birth rates. But the second regarded promoting these ends as too slow and expensive. And even suggesting them risked shattering the coalition: among the hardliners were many who found the tendency of educated women to have fewer children almost as problematic as that of uneducated ones to breed prolifically.

As the world population soared, the population controllers came to believe they were fighting a war, and there would be collateral damage. Millions of intra-uterine contraceptive devices were exported to poor countries although they were known to cause infections and sterility. “Perhaps the individual patient is expendable in the general scheme of things,” said a participant at a conference on the devices organised in 1962 by the Population Council, a research institute founded by John D. Rockefeller, “particularly if the infection she acquires is sterilising but not lethal.” In 1969 Robert McNamara, then president of the World Bank, said he was reluctant to finance health care “unless it was very strictly related to population control, because usually health facilities contributed to the decline of the death rate, and thereby to the population explosion.”

The Catholic church campaigned ceaselessly against population-control programmes, though not primarily for the sake of the women they hurt. In 1994 advocates of the new population-planning policies—health care, choice and women's rights—were told by Pope John Paul II that a woman who wished not to conceive should simply abstain from sex. Pushed on the question of marital rape, he insisted that materialism and immorality rather than the subjugation of women were to blame.

Mr Connelly's story is a global one, partly because so many of the groups seeking to influence the reproduction of others were transnational, but also because often it was those in one country who wished those in another to have fewer children. But some of the worst excesses were inflicted by elites on their own poor. During the Indian emergency of 1975-77, over 8m Indians were sterilised in a single year. Many of these were bribed or threatened with the destruction of their homes, or simply forced to submit. And China's one-child policy was an entirely home-grown idea, although it had its foreign admirers.

Mr Connelly's most devastating critique of population control is not that it destroyed lives, or was based on imperialist or eugenic ideas, but that it did not work. In country after country—even in China—birth rates were already falling when the government began implementing more coercive policies. Furthermore, statistical estimates suggest that as much as 90% of the reason that women have families of a particular size is simply because that is the number of children they want. Where women gained education and rights, birth rates fell. As with reproduction itself, for people to become less fruitful, desire must precede performance.

Fatal Misconception: The Struggle to Control World Population.
By Matthew Connelly.
Harvard University Press/Belknap; 544 pages; $35 and £22.95

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Computer animation

Tall tales

May 22nd 2008
From The Economist print edition

AP

Breaking the mould

The rollercoaster, rags-to-riches story of a remarkable animation studio

PIXAR'S characters—whether the heroic toys of “Toy Story”, the father and son fish of “Finding Nemo”, the insects in “A Bug's Life” or the rat-chef of “Ratatouille”—are full of yearning; for a child to play with, a lost family member, or to become something that seems far out of reach. The small company that imagined them is just the same. Right from the beginning, Pixar, officially a computer-hardware business, secretly dreamed of a more creative life making feature films.

The Pixar Touch: The Making of a Company
By David A. Price

Knopf; 308 pages; $27.95

Buy it at
Amazon.com
Amazon.co.uk

Ed Catmull's ambition at school had been to become an animator at Disney, but he gave up because he couldn't draw. Computer animation, he realised, having graduated in computer science and physics, could be a way to overcome this. So Mr Catmull brought together a small group of people to form a computer-graphics group, which later became Pixar. Their early attempts were uninspiring, however. Two years in the making, the 1977 film, “Tubby the Tuba”, looked bad and the story did not work. Mr Catmull and his colleagues quickly realised that fancy technology was not enough, and that story-telling was just as vital to computer animation as to the hand-drawn sort. Under John Lasseter, a young animator rejected by Disney, Pixar started to develop a new kind of cartoon, which eschewed fairy-tale plots and entertained adults as well as children.

Pixar soon drew the attention of George Lucas, director of the “Star Wars” films, and its future seemed assured. But all Mr Lucas really wanted was for the little company to make whizzy special effects for Lucasfilm's movies, not expensive computer-animated films of its own. At one point, in 1985, Pixar, losing money fast, was nearly sold to General Motors and Philips Electronics, which wanted its computer-graphics modelling tools to help design cars and transform medical scans into three-dimensional images. Even when Steve Jobs, a co-founder of Apple, came to the rescue, Pixar was still in danger. Its pretence to be a computer company was going badly: sales of the Pixar Image Computer were slow. The only significant way the company was earning money was by making cartoon advertisements to sell other companies' products.

But there was reason for hope. “Tin Toy”, a short animated film, won an Oscar in 1988, and that was enough to keep Pixar alive and, crucially, to attract the interest of Disney. Together, the two studios made “Toy Story”, which became a critical and financial success.

Several more hits followed, and Pixar astounded Hollywood with its consistency. The studio became widely revered for its creative culture and for its insistence on originality. There are few American

companies with as saintly a reputation. In 2006 Disney bought Pixar for $7.4 billion, and promptly put Messrs Catmull and Lasseter in charge of Disney's own animation unit.

A number of interesting things about Disney emerge in this excellent, readable account of Pixar's early years. David Price claims, for instance, that Disney's chief executive, Michael Eisner, considered shutting down the company's animation unit after he took over as chief executive in 1984, an astonishing fact given the subsequent success of cartoon films such as “The Lion King”. Mr Price also makes clear just how much Pixar owes to Disney: it was the larger company's marketing for “Toy Story”, for instance, that gave Mr Jobs the confidence to launch an initial public offering of shares in Pixar in 2005.

Mr Price leaves Pixar and its animators in the arms of Mickey Mouse and friends, and assumes that all will be well. So far, the acquisition has undoubtedly benefited Disney. Creative types who left the animation giant in recent years are beginning to return, and morale is high at the company as Pixar prepares next month to launch its ninth feature film, “Wall-E”, about a robot in the year 2700. But will the company have the same energy in future, and what will happen when Mr Lasseter has his next “creative” spat with Disney? Pixar's life from here on, safely tucked away inside a powerful corporation, is likely to be less visible. But that does not mean it will be any less interesting.

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By David A. Price.
Knopf; 308 pages; $27.95

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Geopolitics and America

The rise of the rest

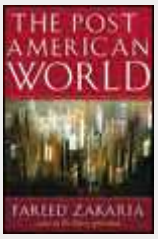
May 22nd 2008
From The Economist print edition

HAS Fareed Zakaria finally succeeded where others have failed, and named the era in which the world finds itself today? For most of the past century it has been conflict that has defined the age—the inter-war period, wartime, the cold war. Now Mr Zakaria, editor of *Newsweek International*, declares that this is the post-American age.

Mr Zakaria takes pains to make clear that his thesis is not "the decline of America but rather the rise of everyone else". Indeed, he feels that this process of transition is already well under way. America will retain a prominent position in military and educational realms, but there are a number of ways in which the rest have already risen: "When trying to explain how America will fare in the new world, I sometimes say, 'Look around.' The future is already here."

Mr Zakaria cites the familiar statistics about the growth of India and China, of course, but also provides an imaginative mass of less obvious evidence. Where are the world's tallest building, biggest Ferris wheel, largest casino and most expansive shopping malls? A decade ago, he says, the answers would have been mostly in America. Globalisation and the internet mean that today these are not clustered anywhere at all.

The Post-American World
By Fareed Zakaria



Norton; 288 pages; $25.95. To be published in Britain by Allen Lane in July

Buy it at
Amazon.com
Amazon.co.uk

He also argues that the shift is more than material. For hundreds of years the definitions of "modernity" and of "Western life" have overlapped heavily—liberal democracies and open civil society, to name just two components. But Mr Zakaria argues that the two concepts are splitting. He admits that "it isn't clear what the break between modernisation and Westernisation will mean." But at the very least it will ensure "a world of enormous cultural diversity and exoticism".

Mr Zakaria's writing is clear and strong, though at times the tempo can be a little too brisk. He might have paused more often to pay tribute to those who originated many of his ideas, such as Paul Kennedy, a British historian at Yale University. Mr Zakaria mentions him only in passing, as a source of some historical titbits. Yet Mr Kennedy postulated the larger concept of relative decline, and a line from his 1987 classic, "The Rise and Fall of the Great Powers", could easily summarise Mr Zakaria's new book: although America is "still in a class of its own", it faces the challenges of preserving its power "from relative erosion in the face of the ever-shifting patterns of global production".

More curious is what appears to be an unintended disconnection between the book's argument and its sources. "The Post-American World" cites a dazzling array of anecdotes, incidents, quotations and statistics from individuals around the world. But when it comes to Mr Zakaria's own business, political analysis, he sticks close to his Manhattan base. Of the roughly three dozen or so contemporary thinkers whose ideas the author praises in the text and uses to make sense of it all, most are not just in America, but based in the north-east corridor that links Boston, New York and Washington, DC. The few exceptions have nearly all spent extensive time in these cities. True, many of them, like Mr Zakaria himself, as he points out, are of foreign origin, attracted to America by its universities. But Mr Zakaria could have written a more original book about the power of the people living beyond America's shores if he had sought out and found more sources among them.

Mr Zakaria's book is, nonetheless, a readable attempt to predict the future. The author concludes by spelling out what America must do to retain its significance: choose its priorities, work closely with allies and agree on international rules of interaction. Above all, America must focus on increasing its legitimacy to the levels it enjoyed before the George Bush presidency. His book will serve as a powerful guide in facing all of these challenges.

The Post-American World.
By Fareed Zakaria.
Norton; 288 pages; $25.95. To be published in Britain by Allen Lane in July

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New fiction

The call of the running tide

May 22nd 2008
From The Economist print edition

RICH and panoramic, Amitav Ghosh's latest novel—the first of a promised trilogy—sees this Indian author on masterly form. Set in 1838, just before the opium wars between Britain and China, “Sea of Poppies” is a sprawling adventure with a cast of hundreds and numerous intricate stories encompassing poverty and riches, despair and hope, and the long-fingered reach of the opium trade.

At the book's heart lies the *Ibis*, a former slave ship, bound from Calcutta to Mauritius. As the story progresses, the vessel becomes home to a diverse set of migrants, each drawn with an assuredly descriptive hand. Among them is all-seeing Deeti, a young village woman rescued from her husband's funeral pyre; sparkling-eyed Zachary Reid, a freedman from Baltimore; Serang Ali, head of the ship's crew of lascars, with a face that “would have earned the envy of Genghis Khan”; Neel, a bankrupt Raja, whose presence can silence a room, “leaving a few last threads of sound to float gently to the floor, like the torn ends of a ribbon”; and a spirited French orphan, Paulette, and her Indian soulmate, Jodu, the son of a boatman. Together they form a close-knit group of *jahaj-bhais* (ship-brothers), each searching for a new destiny.

Sea of Poppies
By Amitav Ghosh

John Murray; 468 pages; £18.99. To be published in America by Farrar, Straus and Giroux in October

Buy it at
Amazon.co.uk

As well as his ability to portray character (even minor players are drawn with astonishing breadth) Mr Ghosh is renowned for giving his novels a haunting sense of place. “The Hungry Tide”, his previous work, drew plaudits for its portrayal of the beauty of the Sundarbans, the tide country of the Ganges delta.

Here, he paints a lustrous picture of the heat and dust of colonial India: a mud-walled village hut floating like a tiny raft “upon a river of poppies”; airy merchants' mansions full of *punkah-wallahs* and protocol; the calls of boatmen floating across the silt- and salt-flavoured Hooghly river; and, in the midst of it all, the British-owned Sudder Opium Factory with its dead-eyed labourers slaving “as slow as ants in honey” in air as fetid as that of a “closed kitchen”. Most powerful is his portrayal of life aboard the *Ibis* as she plunges through the sapphire waters of the Bay of Bengal, her bowsprit pointing to the future, her sails cracking in the wind and her hold so hot “it was as if the migrants' flesh were melting on their bones.”

The only flaw in “Sea of Poppies” is that as the introduction to the trilogy it ends rather abruptly. The readers who have been hooked by the adventures of the *jahaj-bhais* will have to wait until 2010, when the second instalment is due to be published, to meet them once more.

Sea of Poppies.
By Amitav Ghosh.
John Murray; 468 pages; £18.99. To be published in America by Farrar, Straus and Giroux in October

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The globalisation of spin

Marketing maestros

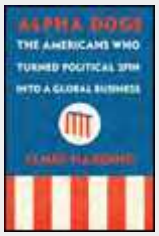
May 22nd 2008
From The Economist print edition

IN 1978 the mayor of Boston, Kevin White, was told some uncomfortable truths. The people of Boston did not like him. “They view you as an aloof, arrogant, son-of-a-bitch bastard,” said Ned Kennan, a pollster brought in to help Mr White win re-election. Mr Kennan had been using a tool that was still new in the late 1970s—the focus group. Instead of asking superficial questions of many people, he asked detailed questions of a few. The more he learnt about the nuances of their feelings for his client, the mayor, he figured, the better the odds of persuading Bostonians to vote for him.

Mr Kennan learnt his trade hawking Listerine mouthwash. The company's own polling revealed only obvious facts, such as that people gargled after eating garlic and onions or smoking cigarettes. Mr Kennan's focus groups told him more. He discovered that mouthwash users were play-by-the-rules types who followed the instructions on a product's label. The Listerine label told them to pour the mouthwash into the bottle cap before gargling. Mr Kennan suggested that sales would be boosted if the company made the bottle cap 25% bigger.

Using the same kind of research, Mr Kennan and his colleagues, David Sawyer and Scott Miller, quickly found a way to market Mayor White. They realised they could not stop people from thinking he was an arrogant bully. So they tried to persuade them that this was how he got things done. “Knowing which arms to twist and hands to hold: that's what it takes to be mayor,” went one slogan. In 1979, having trailed by 26 points in the polls, Mr White was re-elected.

Alpha Dogs: The Americans Who Turned Political Spin into a Global Business
By James Harding



Farrar, Straus and Giroux; 252 pages; $25. To be published in Britain by Atlantic Books in August

Buy it at
Amazon.com
Amazon.co.uk

James Harding, who is now the editor of the London *Times* but used to report on American politics for the *Financial Times*, has written a punchy book about spin. Its title, “Alpha Dogs”, refers to an American company, the Sawyer Miller Group, which for a while shaped and polished political campaigns all around the world. In the Philippines, for example, it helped Cory Aquino oust the appalling President Ferdinand Marcos and his shoe-loving wife. Since the local press was all state-controlled, Sawyer Miller resolved to increase coverage of the Philippines in America. Stories by American journalists about Marcos's grotesque corruption provoked angry denials from the regime, which the Philippine media then reported because they came from official spokesmen. Anti-Marcos stories on American television also helped persuade President Ronald Reagan to stop propping him up.

Sawyer Miller advised Mrs Aquino always to wear yellow, so that crowds could show their support by wearing the same colour. Mindful of the Philippines' colonial history, the American company kept a low profile. It sent a tall Englishman to Manila (Mark Malloch Brown, formerly a journalist with this newspaper and now a British cabinet minister). Mrs Aquino made him sit on the floor of the campaign bus so no one saw him towering over her staff. On election day, to pre-empt a rigged vote count, Mr Malloch Brown took a crude exit poll and had Mrs Aquino declare victory straight away.

“Alpha Dogs” holds the reader's attention like the most deliciously odious political attack ad. Fortunately, the book is also honest and perceptive. Mr Harding's thesis is that as democracy spreads, campaigners everywhere are learning tricks from America. In many ways he thinks this is a bad thing. “Politics in country after country has become as similar as Starbucks,” he frets, and the spin-doctors have ushered in “a political culture that has turned off ordinary people in droves.”

This goes too far. Kenyan politicians may borrow American polling techniques, but Kenya's politics are quite different from America's. And whatever impression people get from watching paramedics carry away enraptured fans who have fainted at one of Barack Obama's mega-rallies, it is surely not that the United States has become a country where people have given up caring about politics.

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New film

The whipcracker is back

May 22nd 2008
From The Economist print edition

AP

The real star

Indiana Jones returns with a steely secret weapon

HARRISON FORD may be 65, but he still wields a prehensile bullwhip with aplomb and his punches sound as though they might fell an elephant.

In his new film, “Indiana Jones and the Kingdom of the Crystal Skull”, the hero is sacked from his teaching job at Marshall College after a run-in with a Red Army agent, Irina Spalko (played by Cate Blanchett), over the remains of an alien from the Roswell incident in New Mexico. A teenage hoody named Mutt (Shia La Beouf) comes to the rescue, summoning Indy on a quest for a legendary crystal skull that has already cost his old friend, Professor Oxley (John Hurt), his health and sanity.

Agent Spalko, who also wants the skull, sets out to kidnap Indy's feisty old flame, Marion Ravenwood (the still fabulous Karen Allen), to help up the ante, and the game starts all over again, returning the hero and his bullwhip to the jungles of Peru where the saga began with “Raiders of the Lost Ark”.

Why the 19-year hiatus between “Crystal Skull” and its predecessor, “Indiana Jones and the Last Crusade”? After sending Indy in the first three films in search of holy relics from Judaism, Hinduism and Christianity, George Lucas and Steven Spielberg needed a fresh quest for a fourth film. They found one in a particularly American religion: UFOlogy.

Will this long-awaited comeback manage to attract a new generation of adolescent Indyites? Its secret weapon may turn out to be Ms Blanchett's Agent Spalko. With her severe black bob, the steely Soviet dominatrix has already set hearts aflutter all over the internet. At the end of the film Agent Spalko gets sucked up by an inter-dimensional vortex. But the fact that she has her own MySpace page, which plays Red Army hymns, suggests that somehow she survives the trip. Messrs Lucas and Spielberg should give the good comrade her own franchise: a one-woman crusade to restart the international communist conspiracy. With those armour-piercing cobalt-blue eyes, Ms Blanchett could just about pull it off.

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Irena Sendler

May 22nd 2008
From The Economist print edition

Irena Sendler, saviour of children in the Warsaw ghetto, died on May 12th, aged 98

East News Poland

POLAND suffered more than any other European country during the second world war. And there was an extra twist: the history of that suffering was then systematically distorted by the Soviet-imposed Communist rulers, and widely misunderstood abroad. Auschwitz, for example, is still often referred to as a “Polish death camp”—rather than one run by the country's Nazi occupiers, in which huge numbers of Polish citizens perished. And gentile Poles are typically imagined to have rejoiced, collaborated or simply stood by as their Jewish compatriots were exterminated. Poles, said the former Israeli leader Yitzhak Shamir, “imbibe anti-Semitism with their mother's milk.”

Certainly prejudice was prevalent in pre-war Poland; but many Poles defied it. One of the bravest was Irena Sendler. As a doctor's daughter, she had been brought up in a house that was open to anyone in pain or need, Jew or gentile. In the segregated lecture halls at Warsaw University, where she studied Polish literature, she and likeminded friends deliberately sat on the “Jewish” benches. When nationalist thugs beat up a Jewish friend, she defaced her grade card, crossing out the stamp that allowed her to sit on the “Aryan” seats. For that, the university suspended her for three years. All this was good preparation for the defiance she was to show after 1939, when the Germans invaded.

She was, a friend said, “born to selflessness, not called to it”. Certainly she had good genes. A rebellious great-grandfather was deported to Siberia. Her father died of typhus in 1917, after treating patients his colleagues shunned. Many were Jewish. Leaders of the Jewish community offered money to her hard-up mother for young Irena's education. Like many social workers in pre-war Poland, Mrs Sendler belonged to the Socialist party: not for its political ideology, she said, but because it combined compassion with dislike of money-worship. No religion motivated her: she acted *z potrzeby serca*, “from the need of my heart”.

Under Nazi occupation the Jews of Warsaw were herded into the city ghetto: four square kilometres for around 400,000 souls. Even before the deportations to the Treblinka death camp started, death could be arbitrary and instant. Yet a paradox created a sliver of hope. Squalor and near-starvation (the monthly bread ration was two kilos, or 4.5lb) created ideal conditions for typhus, which would have killed Germans too. So the Nazis allowed Mrs Sendler and her colleagues in and out of the tightly guarded

ghetto to distribute medicines and vaccinations.

That bureaucratic loophole allowed her to save more Jews than the far better known Oscar Schindler. It was astonishingly risky. Some children could be smuggled out in lorries, or in trams supposedly returning empty to the depot. More often they went by secret passageways from buildings on the outskirts of the ghetto. To save one Jew, she reckoned, required 12 outsiders working in total secrecy: drivers for the vehicles; priests to issue false baptism certificates; bureaucrats to provide ration cards; and most of all, families or religious orders to care for them. The penalty for helping Jews was instant execution.

Names in glass jars

To make matters even riskier, Mrs Sendler insisted on recording the children's details to help them trace their families later. These were written on pieces of tissue paper bundled on her bedside table; the plan was to hurl them out of the window if the Gestapo called. The Nazis did catch her (thinking she was a small cog, not the linchpin of the rescue scheme) but did not find the files, secreted in a friend's armpit. Under torture she revealed nothing. Thanks to a well-placed bribe, she escaped execution; the children's files were buried in glass jars. Mrs Sendler spent the rest of the war under an assumed name.

The idea of a heroine's treatment appalled her. “I feel guilty to this day that I didn't do more,” she said. Besides, she felt she had been a bad daughter, risking her elderly mother's life with her wartime work, a bad wife to both her husbands, and a neglectful mother. Her daughter once asked to be admitted to the children's home where her mother worked after the war, in order to see more of her.

Mrs Sendler need not have worried. Far from being honoured, she narrowly avoided a death sentence from the Communist authorities. Her crime was that her work had been authorised and financed by the Polish government-in-exile in London; later, she helped soldiers of the Home Army, the wartime resistance. Both outfits were now reviled as imperialist stooges. In 1948 repeated interrogations by the secret police in late pregnancy cost the life of her second child, born prematurely. She was not allowed to travel, and her children could not study full-time at university. “What sins have you got on your conscience, Mama?” her daughter asked her.

It was not until 1983 that the Polish authorities allowed her to travel to Jerusalem, where a tree was planted in her honour at Yad Vashem. Many of the children she had saved sought her out: now elderly themselves, all grateful, but some still yearning for details of their forgotten parents. In 2003 she received Poland's highest honour, the order of the White Eagle. It came a little late.

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Overview

May 22nd 2008
From The Economist print edition

Oil prices rose above $135 a barrel for the first time, on news of lower-than-expected American inventories.

The **Federal Reserve's** rate-setting body expects GDP growth of between 0.3% and 1.2% in America this year, revised from 1.3-2.0% in its previous quarterly forecast. The Fed reckons that inflation on its favoured measure, which was revised up by a percentage point, will fall from 3.1-3.4% this year, to 1.8-2.0% by 2010.

Germany's economic prospects continue to look brighter than those of its **euro-area** peers. The Ifo business-climate index rose to 103.5 in May from a two-year low of 102.4 in April. By contrast, business confidence in France fell in April to its lowest level since December 2005.

The **Bank of England** forecast that growth will fall to 1.5% in 2009—compared with 3.3% in 2007—a downward revision of 1.3 percentage points from its forecast a year ago. For 2010, when Britain is likely to hold an election, its central forecast is now 2.4%.

Policymakers at **Australia's** central bank agonised about whether to raise interest rates, according to the minutes of their monetary-policy meeting earlier this month. After a long debate, the bank left its policy rate unchanged, at 7.25%, but it warned that this stance would be reviewed if high inflation threatened to persist.

Consumer-price inflation in **Canada** picked up to 1.7% in April, from 1.4% in March.

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Output, prices and jobs

May 22nd 2008
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2008†	2009†	latest	latest	year ago	2008†	rate‡, %
United States	+2.5 Q1	+0.6	+1.1	+1.7	+0.2 Apr	+3.9 Apr	+2.6	+3.5	5.0 Apr
Japan	+1.0 Q1	+3.3	+1.3	+1.5	−0.7 Mar	+1.2 Mar	−0.1	+0.9	3.8 Mar
China	+10.6 Q1	na	+9.6	+9.0	+15.7 Apr	+8.5 Apr	+3.0	+5.9	9.5 2007
Britain	+2.5 Q1	+1.6	+1.7	+1.7	+0.2 Mar	+3.0 Apr§	+2.8	+2.6	5.2 Mar††
Canada	+2.9 Q4	+0.8	+1.4	+2.1	−2.9 Feb	+1.7 Apr	+2.2	+1.8	6.1 Apr
Euro area	+2.2 Q1	+2.8	+1.6	+1.5	+2.0 Mar	+3.3 Apr	+1.9	+3.0	7.1 Mar
Austria	+3.5 Q1	+3.2	+2.3	+2.3	−1.1 Mar	+3.3 Apr	+1.8	+2.3	4.1 Mar
Belgium	+2.1 Q1	+1.6	+1.7	+1.7	+5.7 Feb	+4.2 Apr	+1.8	+2.9	10.3 Apr‡‡
France	+2.2 Q1	+2.6	+1.5	+1.5	+1.0 Mar	+3.0 Apr	+1.3	+2.7	7.5 Q4§§
Germany	+1.8 Q1	+6.1	+1.7	+1.6	+4.6 Mar	+2.4 Apr	+2.1	+2.6	7.9 Apr
Greece	+3.6 Q1	+4.6	+2.6	+3.1	−5.4 Mar	+4.4 Apr	+2.5	+3.9	8.0 Feb
Italy	+1.9 Q3	+1.7	+0.6	+1.0	−2.5 Mar	+3.3 Apr	+1.5	+2.8	6.0 Q4
Netherlands	+3.1 Q1	+1.0	+2.5	+1.9	−0.6 Mar	+2.0 Apr	+1.8	+2.3	4.0 Mar††
Spain	+2.7 Q1	+1.2	+2.2	+1.8	−13.3 Mar	+4.2 Apr	+2.4	+3.6	9.3 Mar
Czech Republic	+5.4 Q1	na	+4.7	+5.4	−2.1 Mar	+6.8 Apr	+2.5	+6.3	5.2 Apr
Denmark	+1.9 Q4	+1.2	+1.5	+1.6	−2.5 Mar	+3.2 Apr	+1.7	+2.9	1.9 Mar
Hungary	+1.6 Q1	na	+2.3	+3.4	+4.3 Mar	+6.6 Apr	+8.8	+5.9	8.0 Mar††
Norway	+0.9 Q1	+0.8	+2.9	+2.5	+4.0 Mar	+3.1 Apr	+0.3	+3.4	2.4 Mar***
Poland	+6.1 Q4	na	+5.1	+4.3	+14.9 Apr	+4.0 Apr	+2.3	+4.2	10.5 Apr‡‡
Russia	+8.0 Q1	na	+7.1	+6.2	+9.2 Apr	+13.3 Mar	+7.4	+13.0	6.4 Mar‡‡
Sweden	+2.8 Q4	+3.1	+2.3	+2.1	+0.8 Mar	+3.4 Apr	+1.9	+3.0	6.0 Apr‡‡
Switzerland	+3.6 Q4	+4.2	+2.1	+1.7	+9.1 Q4	+2.3 Apr	+0.5	+2.0	2.6 Apr
Turkey	+3.4 Q4	na	+3.2	+4.1	+2.4 Mar	+9.7 Apr	+10.7	+10.2	11.6 Q1‡‡
Australia	+3.9 Q4	+2.4	+3.0	+2.9	+0.1 Q4	+4.2 Q1	+2.4	+3.5	4.2 Apr
Hong Kong	+6.8 Q1	+7.4	+4.6	+4.5	−0.3 Q4	+5.4 Apr	+1.3	+5.3	3.3 Apr††
India	+8.4 Q4	na	+7.6	+7.1	+3.0 Mar	+7.9 Mar	+6.7	+6.0	7.2 2007
Indonesia	+6.3 Q1	na	+5.7	+5.9	+7.5 Feb	+9.0 Apr	+6.3	+9.0	9.1 Dec
Malaysia	+7.3 Q4	na	+5.8	+5.8	+3.0 Mar	+3.0 Apr	+1.5	+2.8	3.0 Q4
Pakistan	+7.0 2007**	na	+4.6	+5.1	+3.2 Mar	+17.2 Apr	+6.9	+12.1	6.2 2006
Singapore	+7.2 Q1	+16.9	+4.5	+5.0	+16.9 Mar	+6.7 Mar	+0.7	+4.3	2.0 Q1
South Korea	+5.7 Q1	+2.9	+4.5	+4.3	+10.0 Mar	+4.1 Apr	+2.5	+2.9	3.2 Apr
Taiwan	+6.4 Q4	na	+4.3	+4.3	+8.2 Mar	+3.9 Apr	+0.7	+2.6	3.9 Apr
Thailand	+6.0 Q1	na	+4.8	+4.6	+10.1 Mar	+6.2 Apr	+1.8	+6.2	1.5 Feb
Argentina	+9.1 Q4	+8.0	+6.2	+4.5	+5.2 Mar	+8.9 Apr	+8.9	+10.3	7.5 Q4‡‡
Brazil	+6.2 Q4	+6.6	+4.6	+4.0	+1.2 Mar	+5.0 Apr	+3.0	+5.1	8.5 Apr‡‡
Chile	+4.0 Q4	+3.7	+3.6	+3.4	−1.0 Mar	+8.3 Apr	+2.5	+6.7	7.6 Mar††††
Colombia	+8.1 Q4	+6.8	+5.0	+4.5	−9.4 Mar	+5.7 Apr	+6.3	+5.5	11.1 Mar‡‡
Mexico	+3.8 Q4	+3.0	+2.1	+2.5	−4.9 Mar	+4.6 Apr	+4.0	+4.7	3.6 Apr‡‡
Venezuela	+8.5 Q4	na	+6.0	+4.5	+12.2 Feb	+29.3 Apr	+19.4	+28.2	8.2 Q1‡‡
Egypt	+8.1 Q4	na	+7.0	+6.8	+7.5 2007**	+16.4 Apr	+11.7	+10.9	9.0 Q4‡‡
Israel	+6.8 Q4	+6.4	+3.5	+3.7	+3.8 Feb	+4.7 Apr	−1.3	+4.1	6.8 Q4
Saudi Arabia	+3.5 2007	na	+6.0	+5.6	na	+9.6 Mar	+2.9	+8.5	na
South Africa	+4.6 Q4	+5.3	+4.1	+4.8	−1.1 Mar	+10.6 Mar	+6.1	+7.5	23.0 Sep‡‡
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+0.4 Q1	+7.8	+2.8	+3.7	−4.9 Mar	+11.4 Apr	+5.5	+9.3	5.5 Mar
Finland	+3.7 Q4	+3.8	+2.7	+2.7	+2.5 Mar	+3.5 Apr	+2.6	+3.0	5.8 Apr
Iceland	+4.6 Q4	+1.4	+1.4	+2.6	+0.4 2007	+11.8 Apr	+5.3	+7.5	1.0 Apr‡‡
Ireland	+3.5 Q4	−3.3	+2.4	+2.4	+7.0 Mar	+4.3 Apr	+5.1	+3.0	5.5 Apr
Latvia	+3.6 Q1	na	+2.4	+3.0	−5.5 Mar	+17.5 Apr	+8.9	+13.2	4.9 Mar
Lithuania	+6.4 Q1	−0.8	+5.8	+5.5	na	+11.7 Apr	+4.8	+8.8	4.7 Mar‡‡
Luxembourg	+3.8 Q4	+7.4	+3.9	+3.6	−0.2 Feb	+3.5 Apr	+2.1	+3.4	4.2 Mar‡‡
New Zealand	+2.8 Q4	+3.1	+1.7	+2.3	+4.2 Q4	+3.4 Q1	+2.5	+3.2	3.6 Q1
Peru	+5.6 Mar	na	+7.5	+6.4	+6.4 Mar	+5.5 Apr	−0.1	+4.8	8.5 Apr‡‡
Philippines	+7.3 Q4	+7.4	+5.4	+5.5	+8.6 Feb	+8.3 Apr	+2.3	+5.8	7.4 Q1‡‡
Portugal	+0.9 Q1	−0.8	+1.5	+1.6	+6.9 Mar	+2.5 Apr	+2.7	+2.4	7.6 Q1‡‡
Slovakia	+8.7 Q1	na	+7.5	+5.7	+1.8 Mar	+4.2 Apr	+2.7	+3.5	7.4 Apr††
Slovenia	+4.7 Q4	na	+4.5	+4.0	+1.0 Mar	+6.5 Apr	+2.6	+5.2	6.9 Mar‡‡

*% change on previous quarter, annual rate. †*The Economist* poll or Economist Intelligence Unit estimate/forecast. ‡National definitions. §RPI inflation rate 4.2% in Apr. **Year ending June. ††Latest three months. ‡‡Not seasonally adjusted. §§New series. ***Centred 3-month average

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy; OECD; ECB

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The Economist commodity-price index

May 22nd 2008
From The Economist print edition

The Economist commodity-price index

2000=100

	May 13th	May 20th*	% change on one month	% change on one year
Dollar index				
All items	257.7	255.8	–3.1	+25.4
Food	256.7	254.5	–3.5	+57.9
Industrials				
All	258.9	257.6	–2.6	–0.7
Nfa†	197.7	200.0	+4.3	+22.0
Metals	292.3	289.1	–5.0	–7.1
Sterling index				
All items	200.7	197.1	–1.9	+25.8
Euro index				
All items	153.9	151.3	–1.0	+8.0
Gold				
$ per oz	868.50	916.95	–0.2	+38.6
West Texas Intermediate				
$ per barrel	125.87	128.93	+8.3	+98.7

*Provisional †Non-food agriculturals.

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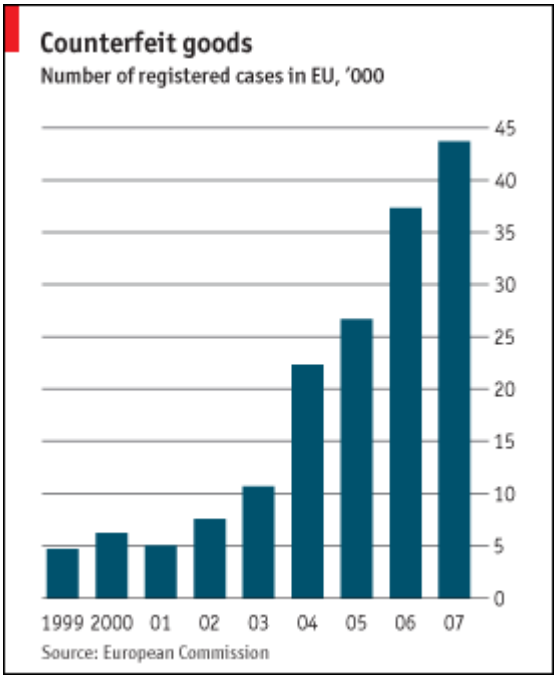
Counterfeit goods

May 22nd 2008
From The Economist print edition



Custom seizures of counterfeit goods rose by 17% in the EU last year, according the European Commission. The number of cases has grown rapidly since 2003, but fewer fake articles were confiscated last year than in 2006—perhaps because internet sales have boosted the number of small consignments. Indeed, 70% of cases involved air-express courier or mail. Cigarettes and clothing accounted for more than half the sham gear seized. China was the source of almost 60% of dodgy goods. Switzerland and India account for three-quarters of the trade in fake drugs, which rose by 51% last year. Treatments for erectile dysfunction—phoney Viagra pills—were the most common counterfeit medicines.

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Trade, exchange rates, budget balances and interest rates

May 22nd 2008
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2008†	Currency units, per $ May 21st	Currency units, per $ year ago	Budget balance % of GDP 2008†	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−823.8 Mar	−738.6 Q4	−4.6	–	–	−2.4	2.00	3.82
Japan	+102.8 Mar	+216.6 Mar	+4.7	103	121	−2.9	0.75	1.61
China	+256.5 Apr	+249.9 2006	+10.5	6.96	7.65	0.5	4.49	4.41
Britain	−179.7 Mar	−115.4 Q4	−4.0	0.51	0.50	−3.2	5.84	4.87
Canada	+46.2 Mar	+12.5 Q4	−0.1	0.98	1.08	0.4	2.61	3.69
Euro area	+14.1 Mar	+25.3 Feb	−0.1	0.63	0.74	−0.8	4.86	4.26
Austria	+1.0 Feb	+12.2 Q4	+3.0	0.63	0.74	−0.4	4.86	4.42
Belgium	+14.3 Feb	+2.7 Dec	+2.1	0.63	0.74	−0.4	4.93	4.55
France	−59.3 Mar	−35.7 Mar	−1.7	0.63	0.74	−2.9	4.86	4.44
Germany	+273.9 Mar	+264.5 Mar	+6.2	0.63	0.74	1.1	4.86	4.26
Greece	−59.4 Feb	−45.2 Mar	−12.0	0.63	0.74	−2.6	4.86	4.71
Italy	−12.9 Mar	−57.0 Mar	−2.5	0.63	0.74	−2.6	4.86	4.74
Netherlands	+57.3 Mar	+50.7 Q4	+6.3	0.63	0.74	0.6	4.86	4.44
Spain	−147.1 Mar	−150.3 Feb	−9.2	0.63	0.74	−0.7	4.86	4.49
Czech Republic	+4.4 Mar	−4.7 Mar	−2.9	16.0	21.0	−2.5	4.15	4.72
Denmark	+4.1 Mar	+4.1 Mar	+0.9	4.73	5.52	3.6	5.40	4.50
Hungary	+0.2 Mar	−6.9 Q4	−5.9	155	184	−4.2	8.57	8.25
Norway	+66.9 Apr	+64.1 Q4	+16.8	5.00	6.01	17.5	6.54	4.70
Poland	−14.7 Mar	−18.6 Mar	−3.8	2.16	2.80	−2.1	6.44	6.18
Russia	+152.9 Mar	+92.4 Q1	+5.4	23.6	25.9	2.5	10.50	6.54
Sweden	+19.3 Mar	+38.1 Q4	+7.2	5.91	6.82	2.4	4.01	4.20
Switzerland	+12.5 Mar	+71.1 Q4	+14.9	1.03	1.23	0.9	2.78	3.01
Turkey	−66.8 Mar	−40.4 Mar	−6.5	1.24	1.32	−2.9	17.61	6.66‡
Australia	−21.9 Mar	−56.4 Q4	−5.9	1.04	1.21	1.5	7.67	6.32
Hong Kong	−25.0 Mar	+28.0 Q4	+9.1	7.80	7.82	2.9	1.86	2.72
India	−77.7 Mar	−12.8 Q4	−2.4	42.8	40.6	−3.2	7.37	8.33
Indonesia	+39.8 Mar	+11.0 Q4	+2.3	9,292	8,710	−2.1	8.48	6.96‡
Malaysia	+31.5 Mar	+28.9 Q4	+12.5	3.22	3.39	−3.1	3.62	4.02‡
Pakistan	−19.1 Apr	−8.4 Q4	−8.8	69.4	60.7	−4.7	11.17	10.12‡
Singapore	+30.5 Apr	+39.1 Q4	+24.4	1.36	1.53	1.0	1.25	2.42
South Korea	+6.0 Apr	+2.5 Mar	+0.3	1,042	932	0.2	5.36	5.52
Taiwan	+13.1 Apr	+32.2 Q1	+5.3	30.5	33.4	−1.8	2.70	2.59
Thailand	+8.8 Mar	+13.3 Mar	+3.2	31.9	34.6	−3.1	3.30	4.40
Argentina	+12.0 Mar	+7.3 Q4	+2.8	3.13	3.09	1.1	14.13	na
Brazil	+31.7 Apr	−9.5 Mar	−0.8	1.65	1.94	−1.8	11.64	6.16‡
Chile	+22.2 Apr	+7.2 Q4	+2.6	472	525	7.0	6.60	4.34‡
Colombia	−0.2 Feb	−5.9 Q4	−3.5	1,780	1,957	−1.7	9.73	5.47‡
Mexico	−12.2 Mar	−7.4 Q4	−1.2	10.4	10.8	nil	7.44	8.07
Venezuela	+23.7 Q4	+20.0 Q4	+7.0	3.30	4.23§	nil	17.10	6.55‡
Egypt	−20.5 Q4	+0.5 Q4	+0.3	5.35	5.70	−7.2	9.21	4.76‡
Israel	−12.4 Apr	+5.0 Q4	+0.2	3.32	3.97	−1.4	3.73	5.41
Saudi Arabia	+150.8 2007	+95.0 2007	+27.7	3.75	3.75	17.9	2.38	na
South Africa	−10.6 Mar	−20.6 Q4	−7.8	7.65	7.05	0.4	12.15	9.55
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−4.4 Feb	−3.4 Mar	−12.7	9.92	11.6	0.2	6.40	na
Finland	+12.3 Mar	+12.5 Mar	+4.1	0.63	0.74	4.6	4.70	4.41
Iceland	−1.6 nil	−3.2 Q4	−12.0	73.2	61.5	1.4	15.82	na
Ireland	+37.0 Feb	−12.7 Q4	−4.3	0.63	0.74	−0.8	4.86	4.53
Latvia	−7.3 Mar	−6.3 Mar	−13.2	0.44	0.52	nil	5.22	na
Lithuania	−7.8 Mar	−5.8 Mar	−11.5	2.19	2.56	−0.7	5.17	na
Luxembourg	−6.1 Feb	+3.9 Q4	na	0.63	0.74	1.5	4.86	na
New Zealand	−3.4 Mar	−10.2 Q4	−7.3	1.28	1.37	3.1	7.25	6.39
Peru	+8.3 Mar	+1.5 Q4	+0.4	2.80	3.16	1.6	5.25	na
Philippines	−6.5 Feb	+6.4 Dec	+4.0	43.2	46.0	−0.1	6.19	na
Portugal	−28.4 Feb	−23.4 Feb	−8.3	0.63	0.74	−2.5	4.86	4.62
Slovakia	−0.6 Mar	−4.5 Jan	−3.3	19.8	25.0	−2.1	4.11	4.57
Slovenia	−3.3 Mar	−2.6 Feb	−2.5	0.63	0.74	−0.2	na	na

*Merchandise trade only. †*The Economist* poll or Economist Intelligence Unit forecast. ‡Dollar-denominated bonds. §Unofficial exchange rate.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac.

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Markets

May 22nd 2008
From The Economist print edition

Markets

	Index May 21st	% change on one week	% change on Dec 31st 2007 in local currency	% change on Dec 31st 2007 in $ terms
United States (DJIA)	12,601.2	−2.3	−5.0	−5.0
United States (S&P 500)	1,390.7	−1.3	−5.3	−5.3
United States (NAScomp)	2,448.3	−1.9	−7.7	−7.7
Japan (Nikkei 225)	13,926.3	−1.4	−9.0	−1.6
Japan (Topix)	1,370.1	−0.2	−7.2	+0.5
China (SSEA)	3,719.0	−3.1	−32.6	−29.3
China (SSEB, $ terms)	250.5	−3.4	−34.8	−31.6
Britain (FTSE 100)	6,198.1	−0.3	−4.0	−5.3
Canada (S&P TSX)	14,790.4	+1.1	+6.9	+7.3
Euro area (FTSE Euro 100)	1,201.4	−1.4	−12.6	−5.8
Euro area (DJ STOXX 50)	3,794.1	−1.6	−13.8	−7.0
Austria (ATX)	4,422.5	+0.4	−2.0	+5.7
Belgium (Bel 20)	3,765.8	−1.7	−8.8	−1.6
France (CAC 40)	5,027.6	−0.5	−10.4	−3.4
Germany (DAX)*	7,040.8	−0.6	−12.7	−5.9
Greece (Athex Comp)	4,151.4	−2.9	−19.8	−13.6
Italy (S&P/MIB)	33,061.0	−3.5	−14.2	−7.5
Netherlands (AEX)	487.6	−0.2	−5.5	+2.0
Spain (Madrid SE)	1,487.8	−2.3	−9.4	−2.3
Czech Republic (PX)	1,668.9	+0.8	−8.1	+4.8
Denmark (OMXCB)	430.9	+2.1	−4.0	+3.5
Hungary (BUX)	22,780.6	−3.1	−13.2	−2.9
Norway (OSEAX)	591.3	+4.4	+3.7	+12.7
Poland (WIG)	47,015.0	−2.7	−15.5	−3.8
Russia (RTS, $ terms)	2,467.8	+2.6	+3.5	+7.7
Sweden (Aff.Gen)	314.9	−0.7	−7.5	+1.2
Switzerland (SMI)	7,574.3	−0.3	−10.7	−1.8
Turkey (ISE)	41,011.3	−3.6	−26.2	−30.4
Australia (All Ord.)	5,916.4	−0.4	−7.9	+1.4
Hong Kong (Hang Seng)	25,460.3	−0.3	−8.5	−8.5
India (BSE)	17,243.2	+1.6	−15.0	−21.8
Indonesia (JSX)	2,494.7	+1.9	−9.1	−8.2
Malaysia (KLSE)	1,281.2	−0.5	−11.3	−9.0
Pakistan (KSE)	13,974.5	−4.2	−0.7	−11.8
Singapore (STI)	3,196.9	−0.1	−7.8	−2.2
South Korea (KOSPI)	1,847.5	+0.2	−2.6	−12.5
Taiwan (TWI)	9,015.6	nil	+6.0	+12.7
Thailand (SET)	884.2	+4.2	+3.0	+8.9
Argentina (MERV)	2,221.1	+6.3	+3.2	+3.8
Brazil (BVSP)	72,294.0	+3.2	+13.2	+22.2
Chile (IGPA)	14,085.3	+2.9	nil	+5.6
Colombia (IGBC)	10,011.9	−1.9	−6.4	+6.1
Mexico (IPC)	31,126.1	−0.7	+5.4	+10.9
Venezuela (IBC)	35,778.1	−1.7	−5.6	−38.6
Egypt (Case 30)	10,636.5	−0.3	+1.6	+4.7
Israel (TA-100)	1,025.7	−0.2	−11.2	+3.0
Saudi Arabia (Tadawul)	9,672.6	−1.1	+21.9	+21.9
South Africa (JSE AS)	32,907.7	+1.6	+13.6	+1.5
Europe (FTSEurofirst 300)	1,340.6	−1.0	−11.0	−4.0
World, dev'd (MSCI)	1,532.6	+0.1	−3.5	−3.5
Emerging markets (MSCI)	1,233.1	+2.1	−1.0	−1.0
World, all (MSCI)	390.1	+0.3	−3.2	−3.2
World bonds (Citigroup)	779.0	+1.6	+6.7	+6.7
EMBI+ (JPMorgan)	444.3	+0.9	+2.5	+2.5
Hedge funds (HFRX)	1,326.6	+0.4	−0.2	−0.2
Volatility, US (VIX)	22.5	21.6	22.5	(levels)
CDSs, Eur (iTRAXX)†	65.0	−5.1	+28.4	+38.5
CDSs, N Am (CDX)†	101.4	+3.6	+15.8	+15.8
Carbon trading (EU ETS) €	25.7	+4.9	+15.4	+24.4

*Total return index. †Credit-default swap spreads, basis points.

Sources: National statistics offices, central banks and stock exchanges; Thomson Datastream; Reuters; WM/Reuters; JPMorgan Chase; Bank Leumi le-Israel; CBOE; CME; Danske Bank; EEX; HKMA; Markit; Standard Bank Group; UBS; Westpac.

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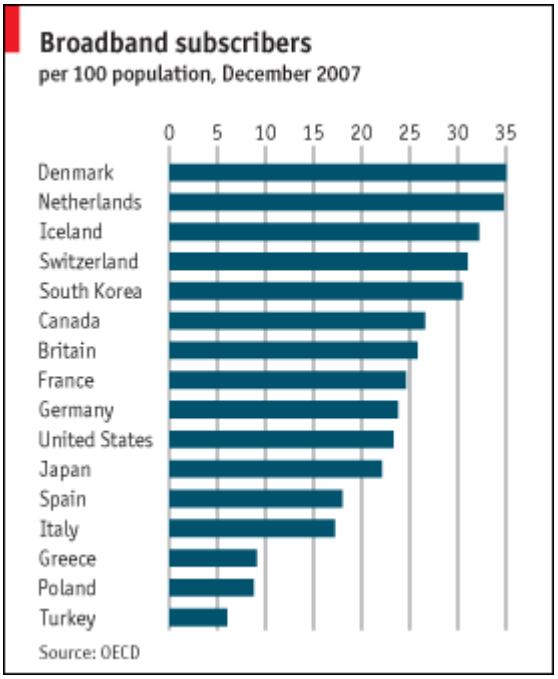
Broadband subscribers

May 22nd 2008
From The Economist print edition



The number of broadband subscribers in the OECD rose to 235m by December 2007, an increase of almost a fifth from a year earlier. A broadband link allows users to access digital information faster than a standard telephone-modem connection. Around 35% of the population in Denmark have broadband access, the highest rate in the OECD. Broadband penetration in other Nordic countries (and in the Netherlands and South Korea) is above 30%. Fibre-optic links can transmit digital data still faster than traditional broadband. But outside Japan and South Korea—where more than a third of users have fibre-optic links—their use is spreading slowly. Just 8% of subscriptions in the OECD are fibre-based.

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